

Center for Economic Education and Research  
California State University, Bakersfield  
9001 Stockdale Highway  
Bakersfield, CA 93311-1099  
Phone: 661/664-2460  
Fax: 661/664-2049  
Email: econdept@csubak.edu

# KERN ECONOMIC JOURNAL

Volume 2 Issue 1

2000 First Quarter

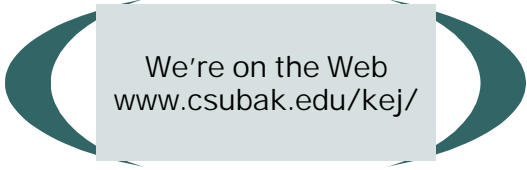
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*KERN ECONOMIC JOURNAL* is a quarterly publication by the Center for Economic Education and Research at California State University, Bakersfield. Its main purpose is to track local trends and analyze regional, national, and global issues that affect 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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*KERN ECONOMIC JOURNAL* is a quarterly publication (January, April, July, and October) on economic development issues and trends. It is owned, managed, and published by the Center for Economic Education and Research, California State University, Bakersfield. Sources of funding for the journal include 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 both hard and electronic copies.

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## Local Economy in Perspective:

**Business Outlook Survey:** Businesses remained optimistic about local economic conditions. However, they were *less* optimistic this quarter than the previous quarter as the Business Outlook Index declined slightly from 129.7 to 128.

(Full story on page 2)

Local factors perceived to improve business outlook:

- Greater employment opportunities
- Increased funding for non-profit organizations
- Increased business in serving an aging population
- Commercial and educational construction and remodeling
- Higher oil prices, booming Stock Market, and increased consumer confidence

**Consumer Sentiment Survey:** Households expressed greater optimism about local economic conditions. The Consumer Sentiment Index rose from 117 to 123.

(Full story on page 3)

Question	Better	Same	Worse
How your family is doing financially compared to one year ago?	37%	52%	11%
The most likely financial situation of your family one year from now?	51%	42%	7%

**Nonfarm Employment** decreased by 500

or at an annualized rate of 1 percent. Seasonally adjusted unemployment rate rose from 9.8 to 10.7 percent. Over the past four quarters, however, Kern County created jobs at a rate equal to that of California, but faster than that of the United States.

(Full story on page 5)

**Weekly Hourly Earnings:** When adjusted for the cost of living, manufacturing workers in Bakersfield metropolitan area made \$113 per week more than the state average, whereas those who worked in San Diego earned \$102 less.

(Full story on page 6)

**Commercial Real Estate:** Throughout 2000, Bakersfield will continue to gain the attention of national retailers as they expand into California's Central Valley. Two such tenants expected to announce locations in 2000 are Borders Books and Best Buy. And Orchard Supply Hardware, located on Ming Avenue and Ashe Road, is actively pursuing two additional Bakersfield locations.

(Full story on page 8)

**Kern County's population** grew at a very rapid rate last decade and is expected to continue to grow this decade. While the county's age structure will remain fairly stable, its ethnic composition is going to change in favor of the minority groups.

(Full story on page 13)

Ethnic Composition	1990	2000	2010
White	63	57	49
Hispanic	28	33	40
African-American	5	6	6
Asian and Pacific Islanders	3	3	4
American Indians	1	1	1

**Kern County's income disparity** is more pronounced than California and the United States. For example, for each family making more than \$75,000, there are 4 families in Kern County, 2 in California, and 3 in the United States with incomes less than \$25,000. Also, Kern County with 52.2 percent of its families included in the \$25,000 to \$75,000 income bracket has a smaller middle class than the state and nation.

(Full story on page 15)

# KERN BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS



Between the fourth quarter of 1999 and the first quarter of 2000, the Business Outlook Index fell slightly from 129.7 to 128.0. This decline indicates that business managers are still optimistic about local business conditions, but their degree of optimism is less than that of the previous quarter.

Survey respondents, however, expressed varied level of optimism with respect to individual questions.

## Company Employment

An overwhelming majority of survey respondents reported that the

number of jobs in their companies stayed the same as the previous quarter and anticipated employment to remain unchanged next quarter. Nearly one-third of the respondents stated that more jobs were available this quarter and about one-fourth of them expected adding jobs next quarter. Although less than one-tenth of the managers reported a loss of jobs this quarter, no one expected the job loss to continue next quarter.

## Company Financial Conditions

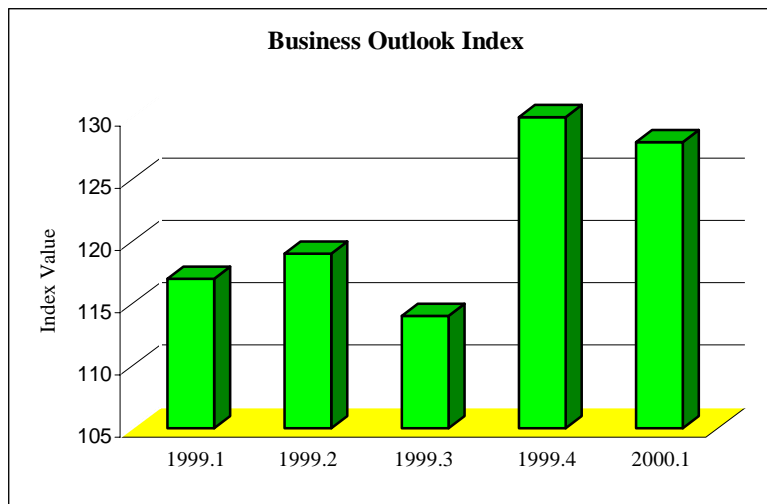
Over one-half of business managers perceived that their financial conditions (sales or profits) improved this

quarter. Forty percent felt no change in their sales or profits, but less than one-tenth perceived worsening financial conditions this quarter. Fifty-two percent of business managers perceived their sales or profits to increase next quarter. But, the remaining forty-eight percent expected their financial conditions to stay constant next quarter.

## Industry Employment and General Business Conditions

Nearly seventy percent of business managers felt that current employ-

*(Continued on page 4)*



Number	Question	Response		
		Better	Same	Worse
		(Percentage of Total Responses)		
1	Employment in your company this quarter was	32.0	60.0	8.0
2	Employment in your company next quarter will be	24.0	76.0	0.0
3	Financial condition (sales or profits) of your company this quarter was	52.0	40.0	8.0
4	Financial condition (sales or profits) of your company next quarter will be	52.0	48.0	0.0
5	Employment and general business conditions in your industry this quarter were	20.0	68.0	12.0
6	Employment and general business conditions in your industry next quarter will be	44.0	48.0	8.0
7	Employment and general business conditions in Kern County this quarter were	28.0	60.0	12.0
8	Employment and general business conditions in Kern County next quarter will be	32.0	56.0	12.0

# BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS, INTERIM DEAN, EXTENDED UNIVERSITY DIVISION



The Bakersfield Consumer Sentiment Index increased from 117 in the final quarter of 1999 to 123 in the first quarter of 2000. The index is compiled from telephone surveys administered to a random sample of 250 households listed in the Bakersfield section of the phone book. Index values over 100 are indicative of consumer optimism, while values below 100 suggest pessimism. The index also is disaggregated into sub-indexes relating to recent trends and future expectations. Both sub-indexes increased in the first quarter. The Index of Recent

Buying and Financial Trends increased from 113 to 116, while the Index of Future Expectations increased from 121 to 130.

The Index of Recent Buying and Financial Trends is constructed from responses to questions relating to expenditures on discretionary items, financial status of the household compared to one year ago, and perceived financial condition of acquaintances in Kern County. One-half of the households reported no change in their financial condition, while more than three households reported

improved conditions for each one that reported financial conditions had worsened. One-third of the respondents reported making a major discretionary purchase in the past 30 days (e.g., furniture, appliance, electronics, automobile, home improvement).

To assess consumer expectations, households were asked how they thought the financial situation of their families would change over the coming year. One-half of the respondents expected the financial situation of their household

*(Continued on page 4)*

	Most Recent Qtr.	Previous Qtr.	One Year Ago
<b>Bakersfield Consumer Sentiment Index</b>	<b>123</b>	<b>117</b>	<b>117</b>
Subindex: Recent Buying & Financial Trends	116	113	109
Subindex: Expectations	130	121	123

	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment)	21 %	61 %	18 %
	<b>Better off</b>	<b>Same</b>	<b>Worse off</b>
How your family is doing financially compared to one year ago.	37 %	52 %	11 %
How your acquaintances in Kern County are doing financially compared to one year ago.	25 %	68 %	7 %

*Business Outlook (Continued from page 2)*

ment and financial conditions of their industries were the same this quarter. One-fifth of the respondents perceived better employment and financial conditions at the industry level this quarter. But, about ten percent of the managers stated that current employment and financial conditions have worsened in their industries. Nearly half of the respondents expected that employment and general business conditions at the industry level would be unchanged next quarter. Over forty percent anticipated improvements, whereas about ten percent felt worsening industry outlook.

Employment and General Business conditions in Kern County

An overwhelming majority of business managers perceived that employment and general business conditions of Kern County were the same as the previous quarter. Nearly thirty percent of survey respondents felt that current business conditions were better this quarter, but over ten percent experienced worsening employment and business conditions. Likewise, the majority of respon-

dents expected employment and general business conditions of Kern County to stay constant next quarter. Over thirty percent of business managers felt local economic conditions will improve, whereas over ten percent expressed pessimism about Kern's business outlook.

Factors Affecting Business Outlook

Survey participants were asked to comment on local, regional, national, or international factors that have affected employment and financial conditions of their companies.

Major factors perceived to hinder employment and business were:

- Rising interest rates, affecting business loan consolidation and debt
- Rising insurance premiums and increased cutthroat competition
- Small pool of skilled labor
- Take-over and merger in financial markets
- Tight oil supplies and increased drilling by all and water-well companies

Major factors perceived to improve

employment and business were:

- ✓ Greater employment opportunities
- ✓ Increased funding for non-profit organizations
- ✓ Increased business in serving an aging population
- ✓ Commercial and educational construction and remodeling
- ✓ Higher oil prices, booming Stock Market, and increased consumer confidence

In summary, business managers are less optimistic about local business outlook. Although many business managers perceived no change in employment this and next quarter, they expected improved sales and profits. These expectations suggest many companies continue to produce more with same resources due to improvements in technology and productivity. A wide range of positive and negative factors has contributed to forming business perceptions. In addition to external factors such as higher oil prices and interest rates, many internal factors such as unavailability of skilled labor and continued construction boom have impacted local economic performance.

*Consumer Sentiment (Continued from page 3)*

to improve or become more stable over the coming year, while less than 10 percent feared things

would become worse or more risky. Finally, households were asked if now is a safe or risky time to use savings or incur debt to purchase expensive goods.

One-third (33 percent) thought it was a safe time to buy, while 26.5 percent thought it was a risky time.

	Better or more stable	About the same	Worse or more risky
The most likely financial situation of your family one year from now	51 %	42 %	7 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	51 %	37 %	12 %
	Safe time to buy	Neutral response	Risky time to buy
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	33 %	40 %	27 %

# NONFARM EMPLOYMENT AND UNEMPLOYMENT IN KERN COUNTY

ABBAS P. GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS

Seasonally adjusted data indicate that the labor force and total employment declined between the fourth quarter of 1999 and first quarter 2000 in Kern County. While the farm sector recorded employment gains, jobs were lost in the nonfarm sector and also for self-employed workers and those who worked outside their areas of residence. Among the nonfarm industries, transportation equipment, wholesale trade, health services, state and local government, and local education added jobs, whereas retail trade, transportation, business services, and federal government reduced employment. Overall, the rate of unemployment rose by less than one-percentage point.

Over the past quarter, the nonfarm sector lost 500 jobs. Nonfarm employment declined at an annualized rate of 1 percent. As shown in Table 1, nonfarm employment increased at an annualized rate of 2.8 percent in California and 2.6 percent

in the United States in this quarter. However, over the previous four quarters, nonfarm employment growth averaged 2.8 percent in both Kern County and California and 2.2 in the United States.

Chart 1 compares nonfarm employment trends. For the purpose of comparison, nonfarm employment has been indexed to a value of 100 for the first quarter of 1997. In Kern County, nonfarm employment increased continuously to an index value of 108.1 in the fourth quarter of 1999 before falling to 107.8 in the first quarter of 2000. The employment index rose to 109.4 in California and 107.6 in the United States.

Table 2 and Chart 2 compare unemployment rates. Historically, the unemployment rate of Kern County has been in double digits. Twice in the 1990s, the first quarter of 1997 and fourth quarter of 1999, Kern's unemployment rate fell to

single digits. Between the first quarter of 1997 and the first quarter of 2000, the unemployment rate rose from 9.2 to 10.7 percent in Kern County, but fell from 6.7 to 4.8 percent in California, and from 5.3 to 4.1 percent in the United States. Since four quarters ago, the unemployment rate has declined from 12.4 to 10.7 percent in Kern County, 5.7 to 4.8 percent in California, and 4.3 to 4.1 percent in the United States.

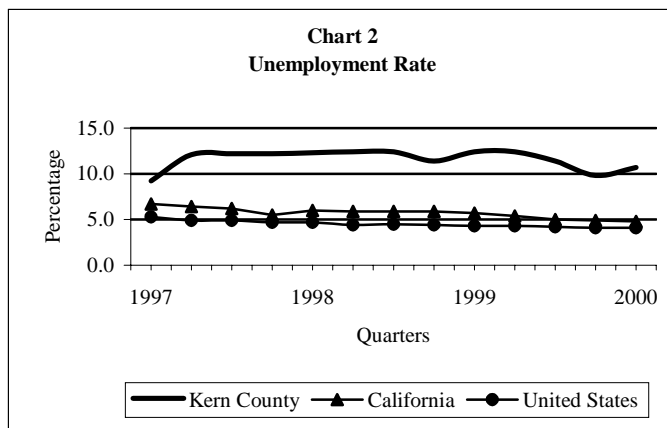
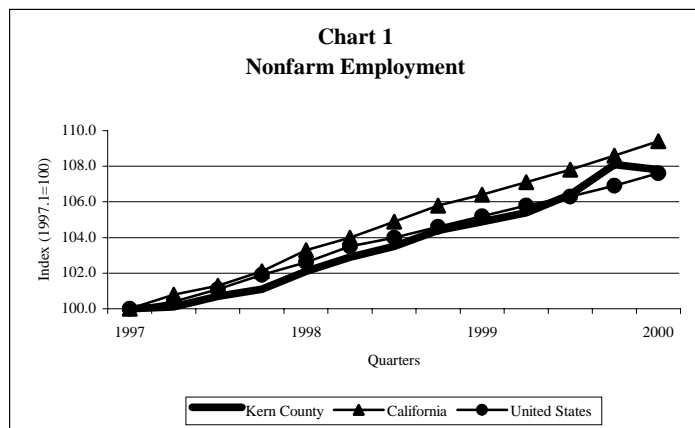
In summary, total wage and salary nonfarm employment fell in the first quarter of 2000. As a result, the unemployment rate rose to double digits again. However, this small decline in nonfarm employment should not signal a longer-term trend because many workers find jobs to help accommodate the fourth quarter's holiday seasons. In retrospect, Kern County created jobs at a rate equal to that of California, but faster than that of the United States over the past four quarters.

**Table 1**  
**Annualized Growth of Nonagricultural Employment**  
**(Seasonally Adjusted, %)**

	Kern	California	United States
<b>Latest Quarter</b>	-1.0	2.8	2.6
<b>Previous Four Quarters</b>	2.8	2.8	2.2

**Table 2**  
**Unemployment Rate (Seasonally Adjusted, %)**

	Kern	California	United States
<b>Latest Quarter</b>	10.7	4.8	4.1
<b>Previous Quarter</b>	9.8	4.9	4.1
<b>Four Quarters Ago</b>	12.4	5.7	4.3



<sup>1</sup> The United States Department of Labor provided seasonally adjusted data. Data for California and Kern County were collected from the State's Employment Development Department. I have adjusted data for Kern County for seasonality by using the ARIMA X-11 time-series, using the SPSS statistical software package.

# WEEKLY EARNINGS IN MANUFACTURING

**ABBAS P. GRAMMY**, PROFESSOR AND CHAIR OF ECONOMICS

The California Employment Development Department provides monthly data on *hourly earnings* and *weekly hours of work* in various industries for seventeen major metropolitan areas including Bakersfield. Although the industry coverage varies across these areas, data for smaller areas like Bakersfield are limited to manufacturing industries.

As shown in the following table, San Jose leads all metropolitan areas with \$17.46 in *hourly earnings*, whereas Fresno ranks last with only \$12.34. Bakersfield is placed 10th with an average hourly rate of \$14.01. Orange County leads California in *weekly hours of work* with 43.2. In contrast, San Diego is placed last with 39.5 hours. Bakersfield with an average of exactly 40 hours per

week ranks next to the last. Multiplying *hourly earnings* by *weekly hours of work*, we find the amount of *weekly earnings*. Once again, San Jose offers the highest *weekly earnings* of \$718. Fresno, on the other hand, pays its manufacturing workers only \$501 per week. Bakersfield is ranked 12th with *weekly earnings* of \$560.

(Continued on page 7)

	Hourly Earnings	Hourly Earnings	Weekly Hours	Weekly Hours	Weekly Earnings	Weekly Earnings	Consumer Price Index	Real Weekly Earnings	Real Weekly Earnings	Difference From California
	Amount	Rank	Amount	Rank	Amount	Rank		Amount	Rank	Amount
California	14.07		41.2		580		1.399	414		
Bakersfield	14.01	10	40.0	16	560	12	1.063	527	3	113
Fresno	12.34	17	40.6	13	501	17	1.063	471	5	57
Los Angeles-Long Beach	13.19	14	42.5	2	561	11	1.735	323	14	-91
Modesto	14.13	8	41.0	11	579	10	1.063	545	2	131
Oakland	15.85	3	42.4	3	672	2	1.735	387	7	-27
Orange County	13.47	12	43.2	1	582	9	1.735	335	13	-79
Riverside-San Bernardino	12.53	16	42.0	4	526	16	1.735	303	17	-111
Sacramento	15.00	4	40.8	12	612	4	1.735	353	9	-61
Salinas	14.10	9	42.0	4	592	7	1.063	557	1	143
San Diego	13.69	11	39.5	17	541	14	1.735	312	15	-102
San Francisco	14.91	5	40.2	14	599	5	1.735	345	10	-69
San Jose	17.46	1	41.1	10	718	1	1.735	413	6	-1
Santa Barbara-Santa Maria	14.33	7	41.2	9	590	8	1.735	340	12	-74
Santa Rosa-Petaluma	14.85	6	40.1	15	595	6	1.735	343	11	-71
Stockton-Lodi	13.46	13	41.5	7	559	13	1.063	525	4	111
Vallejo-Fairfield-Napa	16.14	2	41.5	7	670	3	1.735	386	8	-28
Ventura County	12.88	15	41.9	6	540	15	1.735	311	15	-103

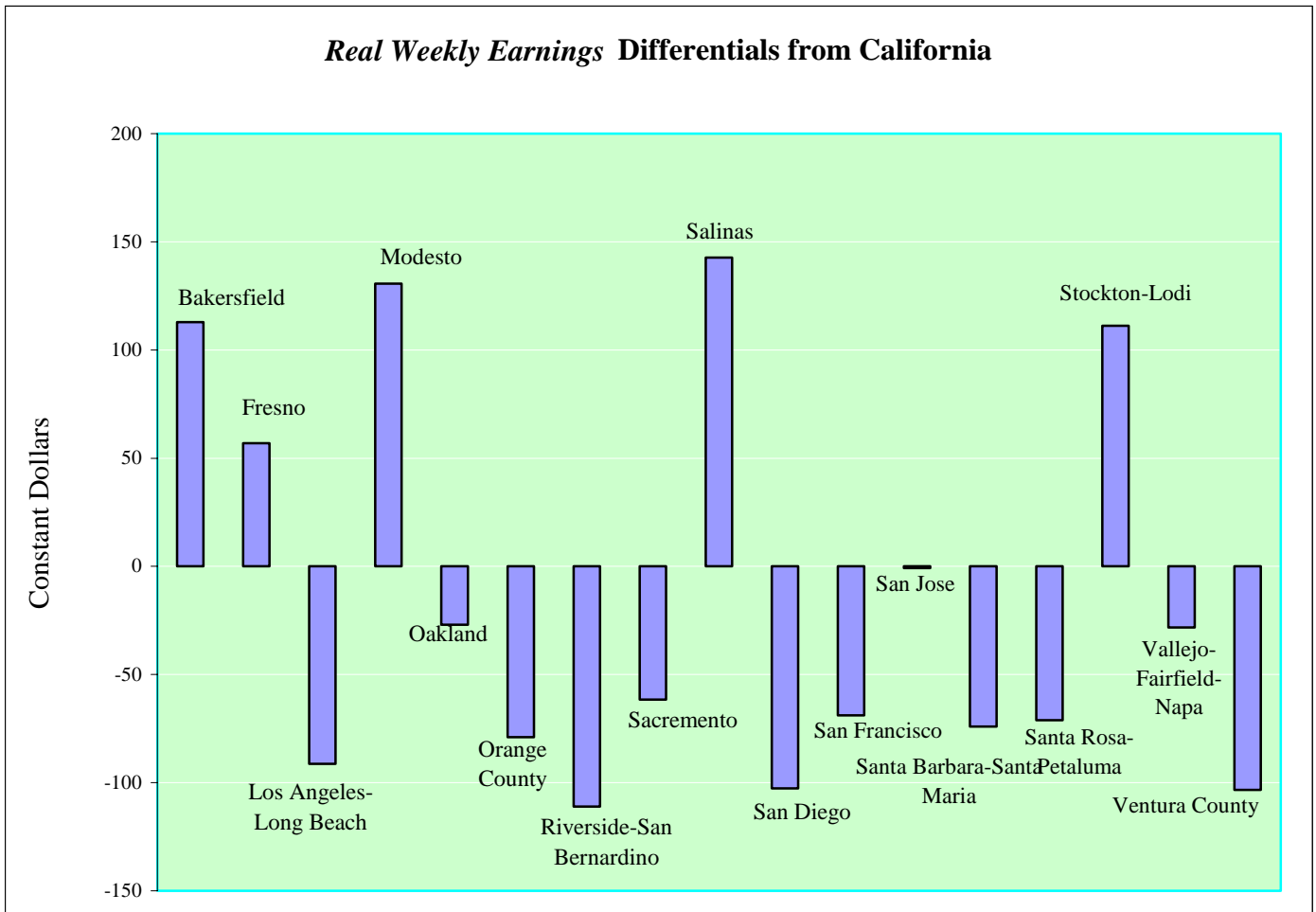
*Earnings (Continued from page 6)*

Obviously, income comparisons are only meaningful when we consider the cost of living differences. However, we note that a cost of living index is not available for all metropolitan areas of California. The Bureau of Labor Statistics publishes monthly data on the Consumer Price Index (CPI) for the nation, regions, and selected local areas including Los Angeles-Riverside-Orange County and San Francisco-Oakland-San Jose. Also, the American Chamber of Commerce Research Association (ACCRA) collects quarterly data on relative price levels of basic consumer goods and services. The index provides useful and reasonably accurate measure of cost of living differences among participating urban areas. But, the most recent ACCRA report covers only seven metropolitan areas in California, excluding Bakersfield.

To overcome the unavailability of uniform cost of living data, we use the published CPI for Western urban areas according to size. The average CPI value for the first three months of 2000 is 173.5 for urban areas with population over 1.5 million and 106.3 for urban areas with population between 50 thousand to 1.5 million. Then, we divided *weekly earnings* by appropriate CPI values to adjust for the cost of living. This adjustment yields interesting results. Less populated agrarian economies of Central California record higher *real weekly earnings* than the larger metropolitan areas. The top ranking areas are now Salinas, Modesto, and Bakersfield, whereas the low ranking areas include Riverside-San Bernardino, Ventura County, and San Diego. The following chart exhibits the *real weekly earnings* differential between each metropolitan area and California. For example, workers in Bakersfield make 113 more in

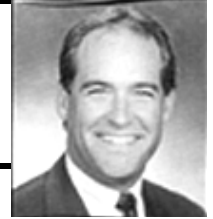
constant dollars, but San Diego's manufacturing labor force earns 103 less than California's average. Interestingly, San Jose, which had the highest unadjusted *weekly earnings*, records *real weekly earnings* almost equal to that of California.

In general, workers in less populated areas of Central California are paid lower hourly wages and work smaller weekly hours. As a consequence, their weekly incomes are much lower than those who work in larger metropolitan areas. However, when wages are adjusted for the cost of living, the latter group or workers makes more and the former group earns less than the state average.



# BAKERSFIELD RETAIL MARKET: 1999 REVIEW / 2000 PREVIEW

**PATRICK COLLINS**, MANAGER, CB RICHARD ELLIS\*



Bakersfield continued to prove itself a growing and dynamic retail market in 1999 introducing new national and regional retailers such as:

- ◆ Lowe's Home Improvement
- ◆ Ralph's Grocery
- ◆ Van's Skate Park
- ◆ Pacific Theater
- ◆ Tahoe Joe's Restaurant
- ◆ Thomasville Home Furnishings
- ◆ Fleming Food 4 Less Grocery Store
- ◆ Tuesday Morning
- ◆ Vans Skate Park
- ◆ Vallarta Super Market

In addition, Save Mart Supermarket and The Home Depot both opened their second locations,

while Grocery Outlet and Foods Company will open new units this year.

Throughout 2000, Bakersfield will continue to gain the attention of national retailers as they expand into California's Central Valley. Two such tenants expected to announce locations in 2000 are Borders Books and Best Buy. And Orchard Supply Hardware, located on Ming Avenue and Ashe Road, is actively pursuing two additional Bakersfield locations.

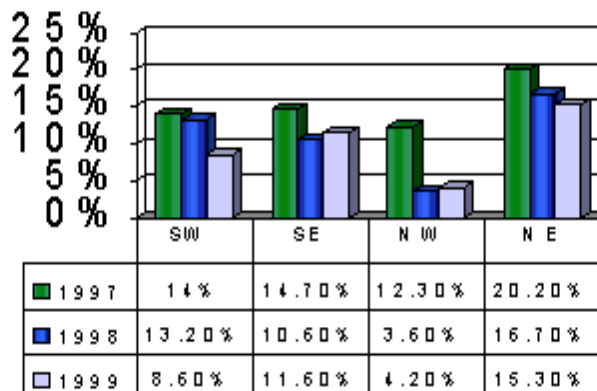
Southwest Bakersfield is the largest retail sub-market in the city and has the highest demand for retail space. Expect to see continued strong activity along the

Ming Avenue corridor. Fleming Food 4 Less is currently under construction on a new grocery unit at the former Best Plaza Shopping Center, which will be completely rehabilitated. Another national retailer new to Bakersfield is expected to announce an opening at the former 104,000 square foot Builders Square across from the new Food 4 Less. And further west on Ming, a new retail project is in the planning stages with major retail tenants.

The Marketplace, Castle & Cooke's premier community center, continued its growth and success adding some of Bakersfield's Finest." Olcott's, Mama Tosca's

*(Continued on page 9)*

## Bakersfield Retail Vacancy Rates by Submarket



Source: CB Richard Ellis

*Retail Market (Continued from page 8)*

and Erlene's will relocate to The Marketplace along with national retailers Thomasville Home Furnishings, Tahoe Joe's and Jamba Juice in 2000 add to the impressive list of tenants at the center.

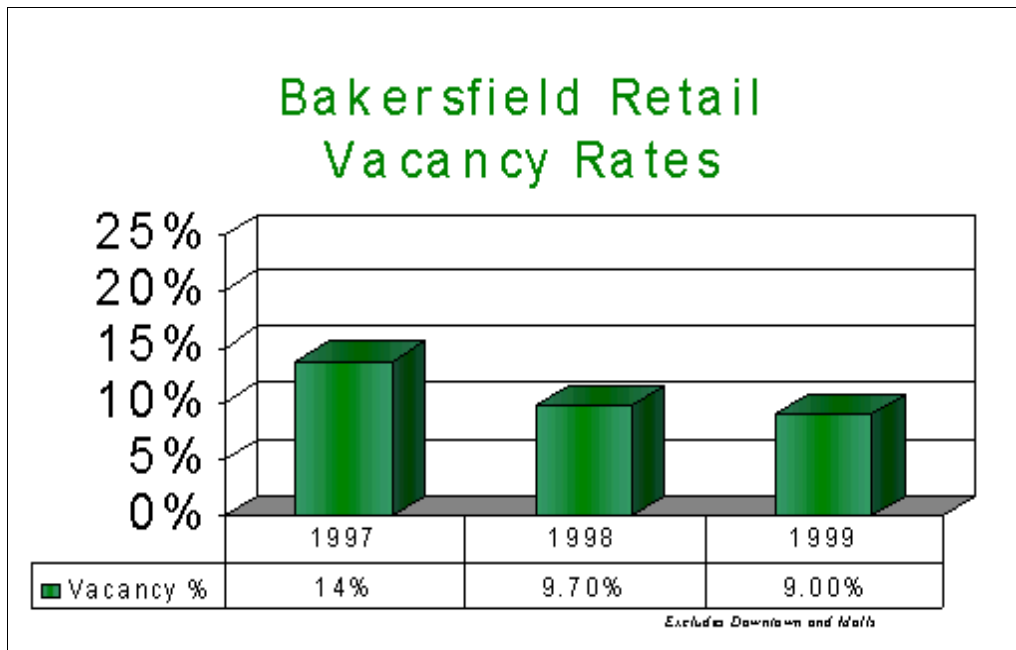
In Northwest Bakersfield, Rosedale Highway continued it's strong retail progress. Lowe's Home Improvement Center opened its first California unit at the corner of Rosedale Highway and Coffee Road. Across the street, The Northwest Promenade announced Foods Co. to it's newly opened Wal-Mart an-

chored center. And at Rosedale Highway and Freeway 99, Vans opened the largest indoor skate park in the country in the Rosedale Place Shopping Center.

The retail real estate market in Bakersfield is healthy and strong. Demand for space continues to exceed the current supply and the vacancy rates have fallen as a result. The exceptions to the trend are second-generation space, single purpose facilities and of course, functionally obsolete space.

As for retail lease rates, existing shopping center rents remained

stabilized and began to increase from 1998 throughout 1999 with average lease rates of approximately \$.90 to \$1.35/square foot/monthly/NNN. New centers such as The Marketplace and Northwest Promenade and centers undergoing rehabilitation such as the Stockdale Village saw record rents. Due to the increased demand in retail space and the declining vacancy rate, expect the newer and revitalized centers to continue to experience the highest rent levels and expect overall average rents to rise throughout 2000.



\*After submitting this article, Mr. Collins accepted the position of CEO and President, Kern Economic Development Corporation.

## GAS PRICES AND CONSUMER BEHAVIOR

**SRIRAM KRISHNAMURTHY, DIRECTOR, ENVIRONMENTAL RESOURCE MANAGEMENT PROGRAM**



Will the rise in the price of gasoline have any effect on consumers? This question may sound incongruous when the cheapest price for a gallon of unleaded gas in Kern County (on March 22, 2000) was \$1.77. However, as will be shown here, the answer to the question may not be that simple.

From the supply side, gasoline is a good that is fairly inelastic over the short-term. That is, gasoline supply does not immediately increase in response to increase in prices. The lag in supply relates to the structure of the oil/gasoline industry: examples include the lead-time required to restart production from wells that were rather unprofitable under lower prices, to limitations in refinery capacity. Further, when the Organization of Petroleum Exporting Countries (OPEC), the cartel of the major oil producers of the world, is able to hold the line on oil production, supply becomes extremely inelastic to prices.

The current surge in gas prices is directly attributable to the OPEC, through their decision to limit supplies. This has to be highlighted because of the contrast to the price hike in California in spring 1999. As a result of shortfalls triggered by refinery problems, in April 1999, the price of a gallon of unleaded gas at the pump reached as high as \$1.642.

The accompanying chart (data from the California Energy Commission) depicts the change in price of unleaded gasoline, at the pump, in California between 1977 and 2000. It is interesting to note that in 1981,

a gallon of unleaded gas cost \$2.3016 in constant 1998 prices. In 1998, it was the lowest price ever at \$1.1647/gallon. (The average for 2000 is the author's assumption.)

On a per gallon basis, gasoline prices are some of the highest ever that the state has seen over the last twenty-three years. But, how does it compare with incomes and usage over the same time period?

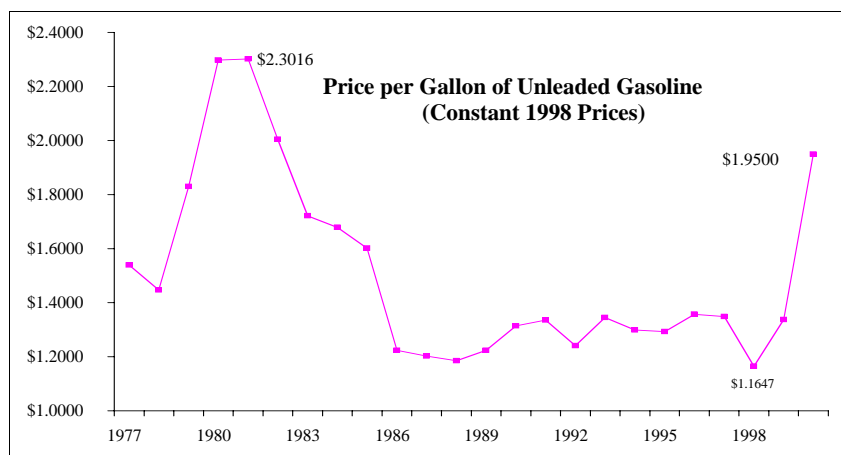
Table 1 includes data on annual average vehicle miles traveled (VMT) by households in the US, the average fuel efficiency of automobiles, and the average cost per gallon of gas and median household incomes (in constant 1996 prices.) (Data for 2000 are the author's assumptions.) We find that if gasoline prices were to stay at \$1.95 for the rest of 2000, gasoline expenses will reach an all-time high of 5% of the household income, as against 2.7% in 1990.

A more interesting issue is that of additional expenses caused by the price hike. The following Table on marginal expenses shows that if gas

prices were to average only \$1.35 in 2000 (comparable to the average price of \$1.3379 in 1999), the median household would have spent \$1,312.50 on gas. However, if gasoline prices averaged \$1.95 for *all of 2000*, which is a very conservative estimate, then the median household would have to spend an additional \$583.33 on gas. This additional expense works out to \$48.61 per month.

The question is whether this additional monthly expense of \$48.61 is high enough for the median household to change their transportation pattern and, therefore, spend less money on gasoline. In other words, how much are consumers responsive to such steep increases in the price of gasoline?

Increase in public transportation patronage, such as increase in Metro-link ridership in the Los Angeles metropolitan area, may convey an impression that demand for gasoline is highly price-elastic. Over the first three weeks in March 2000, average daily systemwide ridership topped



(Continued on page 11)

Gas Prices (Continued from page 10)

31,137 passengers. However, there are two issues here: (a) average daily ridership during the same period for the past three years has steadily increased averaging 24,212 in 1997, 26,642 in 1998 and 27,491 in 1999; and (b) public transportation (trains and buses) accounts for a very low proportion of the total daily trips in these metropolitan areas. Therefore, the increase in public transit usage may not necessarily reflect an overall price elasticity of demand for gasoline.

Further, the sudden spike in ridership may be comparable to the increase in Metrolink patronage soon after the Northridge earthquake in 1994. Soon after the earthquake that severely damaged key freeway segments, there was an upsurge in Metrolink ridership; however, the spike quickly sank, long before the

freeway repairs were completed. This experience suggests that soon these “new” train riders may get back into their cars even if the gas price stays high as it is now. After all, as shown in the Table on marginal expenses, a 44% increase in gasoline price from \$1.35/gallon to \$1.95/gallon translates to a mere 1.5% additional expense to the median household. This is too small a dent on median incomes for such a large increase in the price of gasoline.

This pattern of potential minimal change in consumer behavior in response to a much larger change in price indicates a very low price elasticity of gasoline. According to a study by the Office of Transportation Economics of the California Department of Transportation (Caltrans,) price elasticity of gasoline is estimated to be -0.13. According to this Caltrans estimate, a

10% increase in retail price of gasoline will result in a 1.3% decrease in gasoline consumption. The more than 40% increase in the price of gasoline can, therefore, be expected to cause a little over 5% decrease in gasoline consumption. However, income and wealth effects of the current economic expansion will more than offset the need for households to decrease their gasoline consumption.

The bottom line: it is true that gasoline prices are some of the highest ever they have been. But, against the backdrop of a booming economy, low rates of inflation, and with a 44% increase in price causing a mere 1.5% additional expense to the median household, the increase in gas prices may not be high enough to significantly impact consumer behavior.

Item	1969	1977	1983	1990	2000
Average Annual VMT	12,423	12,036	11,739	15,100	21,000
Average Miles per Gallon	13.5	16	17	20.2	21.6
Gallons of gasoline	920.2	752.3	690.5	747.5	972.2
Gasoline cost/gallon	\$ 1.26	\$ 1.54	\$ 1.72	\$ 1.31	\$ 1.95
Expenditure on gas	\$ 1,163.44	\$ 1,158.09	\$ 1,188.88	\$ 982.55	\$ 1,895.83
Median HH Income	\$ 33,942	\$ 34,119	\$ 34,884	\$ 36,770	\$ 38,000
Gas expense as % of Income	3.4%	3.4%	3.4%	2.7%	5.0%

Average Annual VMT	21,000
Average Miles per Gallon	21.6
Gallons of gasoline	972.2
Expenditure on gas at 2000 rates (\$1.95/gallon)	\$ 1,895.83
Expenditure on gas at 1999 rates (\$1.35/gallon)	\$ 1,312.50
Annualized additional annual cost for 2000	\$ 583.33
Additional monthly cost for 2000	\$ 48.61
Annualized additional annual cost as a % of Median HH income	1.5%

# IMPORT SUBSTITUTION INDUSTRIALIZATION IN KERN COUNTY: A CASE STUDY IN CONSTRUCTION INDUSTRY

FRANK FALERO, PROFESSOR OF ECONOMICS & FINANCE



The purpose of this research is to provide an analysis concerning the specific impact of the relevant Income and Employment Multipliers as they apply to the specific economic activity of manufactured building construction in Kern County within the current period. The question to be addressed is “What, if any, is the precise local economic impact on Kern County of substituting locally manufactured Movable School Buildings for those built elsewhere and transported to Kern County?”

## Kern County as a Developing Economy

The most striking feature of the Kern County Economy is its resemblance to an export based developing economy. Like the export based developing economy, Kern County produces a huge amount of raw materials and agricultural products, which are then shipped out of the county for processing into higher valued products. Like the export base developing economy, Kern County has an abnormally large unemployment rate and a large portion of the population on Public Assistance. Many of the raw materials produced in Kern County are processed into finished goods elsewhere and then are brought back into the county. The difference in value between the raw

material and the finished product is incredible. For instance, oil leaves the county at (current prices) \$20.25 for a 42-gallon barrel (recognizing that the Kern crude is “heavy” and converts to less gasoline per barrel than lighter, “sweeter” crude oils) and comes back as \$1.55 a gallon gasoline; cotton goes out at \$0.50 per pound and comes back as a \$40 shirt. All of that difference is Value Added by someone outside the county.

## Import Substitution as a Development Strategy

One of the most effective methods of developing this kind of economy is to create an import substitution industry. An Import Substitution Industry is an industry which produces a product from the existing internal raw material base which substitutes for one or more of the products that are currently being brought into the economy from outside. For instance, an oil refinery to refine the internally produced crude oil, or a winery to convert the lower valued grapes into the higher valued wine. This method is tried and proven. There is one problem with the method and that has to do with quality. The internally produced product must be a “good substitute” for the product that is brought in or the consumer will reject it. Or, what would be

even worse, the local government might require the purchase of the poorer product, reducing everyone’s well being. So, if the internally produced product is as good as or better than the product that is currently being brought in from outside the county, development and economic growth will occur. The effect of this internal production in Kern County would be to reduce the unemployment rate and lower the portion of the population that is on Public Assistance. In this analysis, it will be assumed that the internally produced product is of comparable price and equal quality to the externally produced product so that the *source of the product will have no direct impact* on the well being of the local consumer.

## The Income and Employment Multipliers for Kern County

Over the last several dozen years, there have been a variety of studies of the Kern County economy conducted by me and several of my colleagues at the University. In addition, there have been a variety of studies conducted by other economists, both academic and business, from other parts of California concerning the structure and behavior of the Kern County economy. Most of these studies have found that for every dollar of additional income that is

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# DEMOGRAPHIC TRENDS IN KERN COUNTY

ABBAS GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS

**K**ern County's population grew from 549,600 in 1990 to 640,100 in 1998. During this time period, Kern County added 90,500 new residents, consisting of 63,900 (71 percent) in natural increase (birth *less* death) and 26,600 (29 percent) in net migration (immigration *plus* migration). On average, Kern's population increased by 11,300 people or at a rate of 1.9 percent.

In California, Kern County ranked 14<sup>th</sup> in total population, 10<sup>th</sup> in population increase, and 16<sup>th</sup> in population growth rate. Among cities, Bakersfield ranked 13<sup>th</sup> in population (230,800), 4<sup>th</sup> in population increase (10,000), and 28<sup>th</sup> in population growth (4.5 percent). Interestingly, the city of Taft, which experienced an increase of 2,075 residents

from 6,875 to 8,950, ranked 1<sup>st</sup> in California with a whopping growth rate of 30.2 percent.

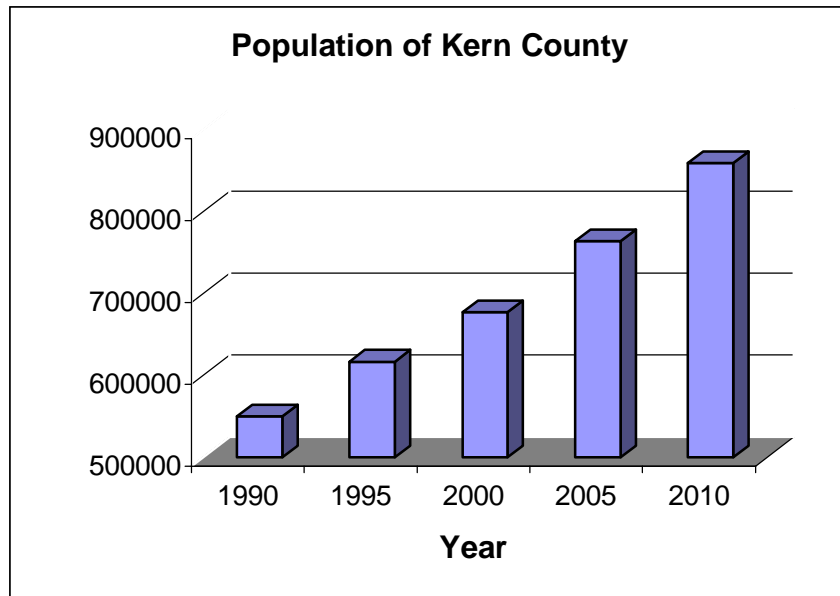
Kern's population is expected to increase to 677,400 in 2000, 764,400 in 2005, and 859,800 in 2010. Compared with 1990, total population will be 23 percent larger in 2000, 40 percent in 2005, and 56 percent in 2010. Kern's average population rate of 1.9 percent is greater than those of the state and nation (about 1.5 and 1.0 percent, respectively). If this rate of growth continues, the county will have over 1 million residents by 2017 and 1.5 million by 2036.

In 1990, 63 percent of the population was classified as White, 28 percent Hispanic, 5 African-American, 3 percent Asian and

Pacific Islanders, and 1 percent American Indians. In 2000, the percentage of White population is expected to reduce to 57 in favor of Hispanics at 33 percent and African-Americans at 6 percent. In 2010, percentage share of the Hispanic population is expected to increase to 40, but that of the White population is projected to fall to 49 percent.

The median age of Kern residents, which was 29 years in 1990, is expected to increase to 31 in 2000, but fall to 30 in 2010. In 1990, over one-third of Kern's residents were 19 years and younger, more than one-half were between 20 and 64, and less than one-tenth were over 65 years of age. By 2000, percentage shares

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*Demographic Trends (Continued from page 13)*

of the above-mentioned age groups are expected to slightly increase in favor of the 19 and younger and 65 and older groups. While the percentage share of people over 65 is projected to remain constant in 2010, the share of 20-64 years group will increase at the expense of that of 19 and younger.

Kern County's population grew at a very rapid rate last decade and is expected to continue to grow this decade. While the county's age structure will remain fairly stable, its ethnic composition is going to change in favor of the minority groups.

<b>Ethnic Composition</b>	<b>1990</b>	<b>2000</b>	<b>2010</b>
White	63	57	49
Hispanic	28	33	40
African-American	5	6	6
Asian and Pacific Islanders	3	3	4
American Indians	1	1	1

<b>Age Structure</b>	<b>1990</b>	<b>2000</b>	<b>2010</b>
Median age	29	31	30
19 and younger	34.5	34.9	34.3
20-64	55.9	54.7	55.3
65 and older	9.6	10.4	10.4

*Import Substitution (Continued from page 12)*

spent within the primary sector of the local economy an additional two dollars and fifty cents of income are generated in the secondary, tertiary, and quaternary sectors. So, a dollar spent in the construction industry, a prime example of the primary sector, will generate two dollars and fifty cents in the light manufacturing (the secondary sector), the wholesale and retail businesses (the tertiary sector), and in the personal services area (the quaternary sector). The same is true for employment. Every new job in the primary sector creates approximately two and a half new jobs in the other sectors.

This increase of two dollars and fifty cents will, of course, be subject to taxation by the state and local government. It should be noted that in the state of California, nearly 100 percent of all sales tax revenues generated within a particular political jurisdiction (city, county, town) are returned

to that jurisdiction for their internal use. Consequently, political jurisdictions pay particularly close attention to exactly where these goods and services providers are located since that information had revenue-generating capacity. For instance, if Kern County were to purchase a dol-

lar's worth of primary sector product from a firm located in Tulare County as opposed to one in Kern County, the impact on the economy of the state of California would be the same, but the impact on Kern County would be dramatically different. Kern County would lose not only the additional income that would be generated as a result of that expenditure but it would also lose the increased tax revenues that result along with the added income.

Part II of this article will appear in a later volume of this journal.

# POVERTY AND INCOME DISTRIBUTION IN KERN COUNTY

**ABBAS P. GRAMMY**, PROFESSOR AND CHAIR OF ECONOMICS

A family is considered as *absolutely poor* if that family earns an income insufficient for providing the basic human needs such as food, shelter, and clothing. To measure poverty, the Census Bureau has constructed a *threshold* level of income that varies with family size and is annually adjusted for inflation. For a given family size, this *threshold* level of income is computed as the annual food budget multiplied by 3. It counts money income before taxes and does not include capital gains and in-kind benefits such as food stamps and Medi-

caid. A family earning less than the *threshold* level is living in poverty.

The Census Bureau compiles data on the number of families in various income brackets for all geographical units. It also calculates the poverty *threshold* level of income. The following table presents the pattern of income distribution from the most recent Census of Population and Housing. For the same year, the *threshold* level of income varied from \$6,700 for a one-person family to \$8,500 for a family of two,

\$13,400 for a family of four, \$17,800 for a family of six, and \$26,800 for a family of nine or more.

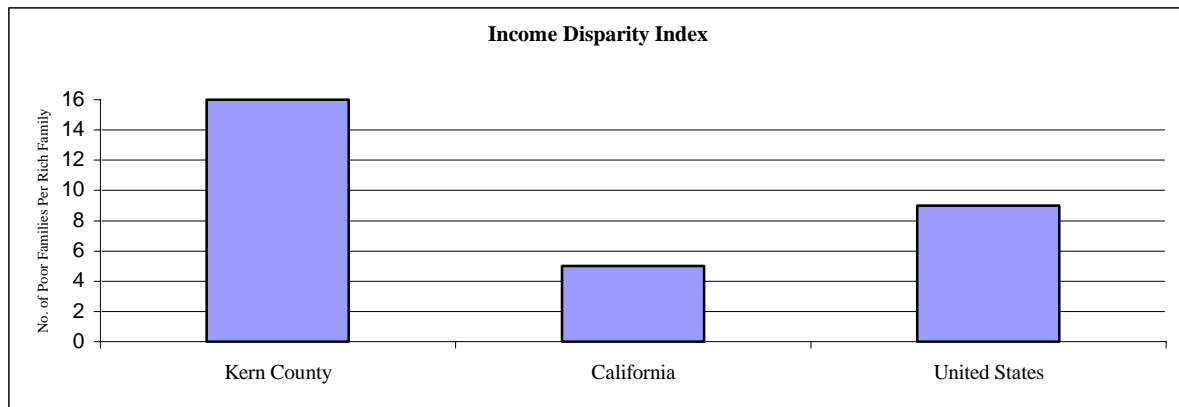
To study poverty and income distribution, I assume an average family size of four persons. Data indicate that Kern County had greater income disparity than the state and nation. Of the 137,814 families living in the county, 28,457 (or 20.6 percent) earned less than \$15,000, whereas 1,728 (or 1.3 percent) made more than \$150,000. The percentage of

(Continued on page 17)

**Income Distribution Data**

Level of Income (In \$1,000)	Percentage of Population			
	Classification	Kern County	California	United States
Less than 15	Poor	20.6	14.3	16.8
15 to 25	Low-income	18.2	13.9	16.4
25 to 35	Lower-middle-income	16.1	14.3	16.5
35 to 50	Middle-income	19.6	19.1	20.4
50 to 75	Upper-middle-income	16.5	21.0	18.2
75 to 100	High-income	5.2	9.0	6.3
100 to 150	Affluent	2.5	5.4	3.5
More than 150	Rich	1.3	3.0	1.9

**Income Disparity Index**



# CREATING A REGIONAL IDENTITY FOR THE SAN JOAQUIN VALLEY

ABBAS P. GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS

In the previous issue I reported on strategies for creating a "strategic vision" as an attempt to overcome Barriers to Job Creation in the San Joaquin Valley, a project undertaken by the Central California Futures Institute. In spring of 1998, I helped the Institute form *action research teams* of volunteer public and private leaders from the valley communities to develop strategies for overcoming such barriers. An action research team consisting of three community leaders worked together over a three-month period to develop strategies that help overcome a serious barrier to job creation, *lack of a regional identity*. Team members were

**Robert Keenan**, Executive Vice President

Building Industry Association of Tulare and Kings Counties, Visalia

**John Lehn**, Director  
Kings County Job Training Office & Crown Economic Development Corporation, Hanford

**Ken Oplinger**, President & CEO  
Visalia Chamber of Commerce, Visalia

I summarized their report in the following format.

## Introduction:

Marketing studies have found that many industries outside the state were not aware of the San Joaquin Valley and as a result do not consider it to be a potential location or relocation site. To overcome this barrier, a major regional marketing effort should be undertaken. Marketing the strengths of the Valley, using existing businesses and anchors to attract new businesses, and describing how the region has changed in response to a growing economy can communicate the Valley's assets to site selectors and corporate real estate executives.

## Policy Recommendations:

***Utilize the California Central Valley Economic Development Corporation (CCVEDC) as the Lead Entity to Market Regional Economic Development Opportunities***

The CCVEDC is already in place, eliminating the need to create a new entity. The organization has as one of its main objectives confronting the barrier of negative perceptions. Its administrative area is the San Joaquin Valley, from Bakersfield to Stockton. The CCVEDC has the structure

and mechanism for addressing this obstacle; it just lacks the funding with which to marshal the necessary resources for a planned and sustained effort.

Judging from the success of other areas (Omaha, Nebraska; San Jose, California; Portland, Oregon), we further recommend that the CCVEDC gain the capability of hiring and working with consultation services, such as a growth consultant firm, to develop long term strategies for sustained economic development for the Valley. Use of consultants, whenever appropriate, could enhance the efforts to combat negative perceptions and promote regional assets. To increase the influence and effectiveness of the CCVEDC, we also recommend its membership be expanded to include more representatives from private sector enterprises, especially corporations that have regional presence. To succeed, the CCVEDC needs substantial and sustained funding. Funds could be raised from any one of several possible sources, or a combination of sources. Possible fundraising strategies include

- Increase the grants received from public sources
- Solicit contributions from pri-

(Continued on page 17)

*Regional Identity (Continued from page 16)*

- vate individuals and corporations, particularly from those that drive direct benefits from further economic expansion (e.g., developers, construction firms, utility companies, grocery chains, department stores, and banks)
- Permit the CCVEDC and county Economic Development Corporations to charge fees to users of their services and databases

***Charge the Central California Futures Institute (CCFI) with the Responsibility of Establishing and Managing Regional Databases for Public Use***

The CCFI should create the capability to manage region-wide databases for public use. This re-

sponsibility includes

- Providing technical assistance in the development of standardized region-wide databases
- Managing, manipulating, and updating labor market, marketing, and economic development information
- Contracting for data collection and analysis
- Helping to coordinate the distribution of duplicative information and data

Concluding Remarks:

We are confident that with adequate resources, the CCVEDC is fully capable of conducting a vigorous and sustained marketing campaign that would place the San Joaquin Valley in a competitive position in economic devel-

opment, vis-à-vis the state, nation, and world. If, as a region, we do nothing, we will grow. If, as a region, we identify the industry clusters which complement agriculture, while also projecting emerging and growing industries in this global economy, we will be in a position to manage and help direct growth and development.

*Poverty (Continued from page 15)*

families earning less than \$15,000 was 14.3 in California and 16.8 percent in the United States. In contrast, the percentage of families with income more than \$150,000 was 3.0 percent in the state and 1.9 in the nation.

To measure income disparity, I divide the percentage of families with income less than \$15,000 to that of more than \$150,000. This income disparity ratio (rounded to the nearest whole number) was 16 in Kern County, 5 in California, and 9 in the United States.

Hence, income disparity was greatest in Kern County, where for each family with annual income more than \$150,000, there were 16 families making less than the *threshold* level of income. In contrast, there were 5 “poor” families in the state and 9 in the nation for each “rich” family.

Income disparity would be less pronounced when I compared family earnings of the bottom two classes with those of the top three. For each family making more than \$75,000, there were 4 families in Kern County, 2 in California, and 3 in the United

States with incomes less than \$25,000.

Finally, I define the “middle class” as families earning income between \$25,000 and \$75,000. Kern County with 52.2 percent of its families included in this income bracket had the smallest “middle class” behind California (54.4 percent) and the United States (55.1 percent).

Source: [www.census.gov](http://www.census.gov)