ECONOMY AT A GLANCE!
2015 FOURTH QUARTER

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National Economy

The world’s largest economy of more than $16.5 trillion, the United States, grew by 0.7 percent, but at a much slower rate than the real Gross Domestic Product (GDP) growth rate from the third quarter of 2015, where real GDP grew by a modest 2.0 percent. Real GDP increased largely because of increases in consumer spending, largely from purchases of durable goods (mostly vehicles and recreational goods), nondurable goods, and large increases in spending on healthcare, as the effects of the Patient Protection and Affordable Care Act (PPACA) continue to unfold. However, the growth rate was moderated by decreases in private inventory investment, as firms in wholesale trade and manufacturing continued to let inventories drop, perhaps as a hint to the state of the global and national economy, as well as decreases in exports.

Real disposable personal income, which is adjusted for inflation and taxes, increased by a whopping 3.2 percent in the fourth quarter of 2015, highlighting substantial real growth in the national economy. This is similar to the large increase in real disposable personal income from the third quarter of 2015 of 3.8 percent. This dramatic continuation in the growth of real personal disposable income led to continued stagnation in real consumer spending, as consumers increased spending in the December of 2015 by only 0.1 percent. This means that most of the real income increases in the fourth quarter of 2015 were not spent. This, however, was met by a sizable increase in the personal savings rate, as consumers are saving about 5.43 percent of their income, an increase since the third quarter of 2015. Though consumers may still be paying down revolving debt, they have likely paid it down to a level where they feel comfortable building up a safety net for unanticipated shocks (such as being fired). This hints that consumers may have learned from the previous recession, and are more willing to delay current consumption to save up the recommended 6 month safety net.

The Conference Board’s Index of Leading Economic Indicators – a measure of future economic activity – declined slightly, to 123.7 in December of 2015, after rising 0.5 percent in both October and November. This compares to the indicator being 123.3 at the end of September of 2015. Though the fall in the index in December could hint at the potential of increased recessionary risk, it is unlikely that this is the case. A decline in housing permits at the tail end of 2015 is the likely culprit of the December decline, and most likely reflects a temporary (and natural) random downswing. Conversely, the University of Michigan’s Consumer Sentiment Index increased from 90.8 to 91.3, as consumers judged prospects for the national economy to start to improve, likely hinting their reasoning behind increasing consumer savings, rather than further paying down consumer debt.

State Economy

In California, the unemployment rate went down to 5.8 from 6.1 percent. Among counties, San Francisco (3.3 percent), Santa Clara (3.8 percent), Orange (4.2 percent), San Luis Obispo (4.4 percent), San Diego (4.8 percent), and Sacramento (5.6 percent), had unemployment rates below the state average, while Los Angeles (5.8 percent) had the same unemployment rate as the state. In contrast, Riverside (6.3 percent), San Joaquin (8.5), Kern (9.4 percent), Fresno (9.8 percent), and Kings (10.3 percent) had unemployment rates above the state average.

1 U.S. economic numbers were obtained from the Bureau of Economic Analysis “U.S. Economy at a Glance”. This is found at http://www.bea.gov/newsreleases/glance.htm. The information for the Index of Leading Economic Indicators is found at https://www.conference-board.org/data/bcicountry.cfm?cid=1. The University of Michigan Consumer Sentiment Index is found at http://www.sca.isr.umich.edu/tables.html.

2 The California economic numbers were obtained from the Bureau of Labor Statistics “Local Area Unemployment Statistics Map”. This is found at http://data.bls.gov/map/MapToolServlet.
The state’s civilian labor force lost 32,167 members, where 31,033 secured paying jobs (employed) and 63,233 fewer were left jobless (unemployed). While nonfarm industries hired 99,167 more workers, farming enterprises employed only 6,967 more workers. A wide range of industries added jobs, including service producing, construction, educational and health services, leisure and hospitality, and federal, state, and local government. However, jobs were lost in manufacturing, financial activities, and mining and logging.

**Local Economy**

Even though Kern County’s labor force decreased only slightly, the number of employed persons fell, while the number of unemployed persons (as well as the unemployment rate) rose. This hints that although Kern County still continues to benefit from the move away from the recession, the continued low oil prices continue to dominate the economy. Although there were large increases in nonfarm employment (8,300 more workers in the fourth quarter of 2015, compared to the third quarter), declines in farm employment and in oil and gas extraction (8,633 and 233 fewer workers, respectively, in the fourth quarter of 2015 compared to the third quarter of 2015) continue to lead the way. Coupled with the increase in the county unemployment rate was a sizable reduction in personal income, falling by $1.25 billion between the third and fourth quarters of 2015, largely led by decreases in business profit and property income, as oil price shocks continue to reverberate throughout the economy.

Labor market conditions continued to be weak into the fourth quarter of 2015, as oil prices continue to have a sizable impact, with no increase in sight. Though the labor force decreased by 667 persons, the number of people unemployed increased by 767 persons. That fewer workers were hired this quarter in Kern County (1,433 workers) means that secondary sectors, such as manufacturing, may be impacted if oil prices are not going to rise. The rate of unemployment ranged from 4.4 percent in Inyokern to 19.4 percent in California City. Nearly every city in Kern County experienced an increase in its unemployment rate. In Bakersfield, 8.4 percent of persons in the labor force are unemployed, an increase that has been mitigated by an out-migration of workers looking for income elsewhere.

The continued fall in oil prices has started to impact secondary economic sectors, such as the housing market. Kern County’s median sales price of houses rose by only $83, from $206,000 in the third quarter of 2015, to $206,083 in the fourth quarter of 2015, meaning that all of the benefits of an economic recovery are being outweighed by oil prices in Kern County, as young workers may be hesitant to purchase a home. In fact, home sales fell precipitously in Kern County, as 707 fewer units were sold in the fourth quarter of 2015, compared to the third quarter of 2015. Most of the housing market impact was felt in Bakersfield. Housing prices depreciated by $4,500 over the past quarter (or nearly 2.0 percent), and 630 fewer homes were sold. This means that most of the labor market troubles are being experienced in the largest metropolitan area in Kern County: Bakersfield. In fact, the number of new building permits continued to stall, as Kern County issued 72 fewer permits this quarter for new construction. This may hint at future impacts to be felt in the construction and service sectors in Kern County, which have largely not been affected (by employment decreases) from the oil price shocks as of yet. Interestingly, the number of loan default notices sent to homeowners also fell by 15 over the past quarter. This hints at two main possibilities: (1) the oil price stagnation is only hurting individuals who were largely affected by the recession, or (2) homeowners in Kern County have used the recovery from the recession to build up a safety net to forestall foreclosures. The next few quarters will be illuminating.

The weighted price index for the five publicly traded companies doing business in Kern County (Sierra Bancorp, Tejon Ranch Company, Chevron Corporation U.S., Granite Construction, and Wells Fargo Company) increased significantly from 90.2 in the third quarter of 2015 to 95.6 in the fourth quarter of 2015, an increase of 5.4 percentage points. This hints that the oil price shock is impacting firms that have a more local presence, as they likely do not have business diversification in other regions to offset regional-level shocks. Chevron (a decline of 1.1 percent) and Tejon Ranch (a decline of 15.0 percent) were the companies to experience declines in their stock prices. Granite Construction (a 30.7 percent increase), Wells Fargo (a 0.5 percent increase), and Sierra Bancorp (an 8.9 percent increase) all gained, largely because banks have a much more regionally diversified portfolio, and the impact on construction companies has not yet been felt.
With the continued stagnation in oil prices, gas prices continued to drop, down $0.35 per gallon since the last quarter, averaging $2.55 a gallon. The unit price of California’s Class III milk also decreased, though only marginally, from $16.14 in the third quarter of 2015 to $15.25 in the fourth quarter of 2015. Farmers suffered the most in California, even as they decreased hiring, likely in the hopes of making up money in early 2016. Prices received by farmers plummeted by 9.3 percentage points, from 99.7 in the third quarter of 2015 to 90.3 in the fourth quarter of 2015. Though prices paid by farmers also fell, it fell by only 2.3 percentage points. This means that farmers are paying more out than they take in as revenues, likely hinting that farmers are placing sizable stakes on recouping their outlays during the El Niño event.