National Economy

The world’s largest economy of more than $16.5 trillion, the United States, grew by 1.5 percent, but at a much slower rate than the real Gross Domestic Product (GDP) growth rate from the second quarter of 2015, where real GDP grew by an incredibly large 3.9 percent. Real GDP increased largely because of increases in consumer spending, durable goods (mostly vehicles and parts), non-durable 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.

Real disposable personal income, which is adjusted for inflation and taxes, increased by 0.3 percent in the third quarter of 2015, highlighting no real growth in the national economy. This is the same real disposable personal income growth rate found in the second quarter of 2015. This continued stagnation in growth of real personal disposable income led to continued stagnation in real consumer spending. As consumers increased spending in the third quarter of 2015 by only 0.25 percent. Even more worryingly, the personal savings rate continued to drop, falling from 5.25 percent in the second quarter of 2015 to 4.7 percent in the third quarter of 2015. This hints that consumers, since they did not increase real consumer spending in the third quarter, are paying down long-term debts that they accrued during the recession, or are accruing more revolving debt (short-term loans) that are tying up more of their incomes. However, it also means that they have less of a safety net, depending on developments in the national economy.

The Conference Board’s Index of Leading Economic Indicators – a measure of future economic activity – declined slightly from 123.6 in the second quarter of 2015 to 123.3 in September of 2015, after not having changed in July and August. This indicates that business sentiments may have reached their peak during a time of continued economic recovery. Conversely, the University of Michigan’s Consumer Sentiment Index declined from 94.2 to 87.2, as consumers judged prospects for the national economy to continue to worsen, matching their stagnation in consumer spending. This index declined in each month of the third quarter, a worrying sign when consumer savings is falling.

State Economy

In California, the unemployment rate went down to 6.1 from 6.3 percent. Among counties, San Francisco (3.2 percent), Santa Clara (3.7 percent), Orange (4.0 percent), San Luis Obispo (4.1 percent), San Diego (4.6 percent), and Sacramento (5.4 percent), had unemployment rates below the state average. In contrast, Los Angeles (6.2 percent), Riverside (6.3 percent), San Joaquin (7.5), Fresno (8.1 percent), Kern (9.2 percent), and Kings (10.2 percent) had unemployment rates above the state average.

The state’s civilian labor force added 18,767 members, where 67,233 secured paying jobs (employed) and 48,467 fewer were left jobless (unemployed). While nonfarm industries hired 139,367 more workers, farming enterprises employed only 2,767 more workers. A wide range of industries added jobs, including service producing, construction, financial activities, educational and health services, and state and local government. However, jobs were lost in manufacturing, mining and logging, and federal government employment.

Local Economy

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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
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 sizable decrease in the unemployment rates, coupled with significant increases in employment (7,333 more workers, compared to the second quarter of 2015), mainly due to large increases in farm employment to offset decreases in non-farm and public employment, helped to mitigate stagnation in personal wages and declines in business income. There was a modest increase in personal income, increasing by only $41 million (0.5% on an annual basis), as Kern County did not improve on the dramatic increase in personal income that occurred in the second quarter of 2015.

Labor market conditions were unexpectedly weak in the third quarter of 2015, as increases in farm employment helped offset declines in employment in many other large sectors. Though the labor force increased by 4,267 persons, the number of people unemployed decreased by 3,067 persons. This means that there were tremendous increases in the number of persons employed in the area, increasing by 7,333 people. It appears that much of this is related to continued stagnation in oil prices, as energy prices are a sizable component of farm prices, and the anticipated El Niño event in the winter of 2015, as farmers may have hired additional farmhands to plant crops to take advantage of a water uptick. Because of this, 12,633 more farm workers were hired this quarter, even during a drought with massive water restrictions. The rate of unemployment ranged from 4.3 percent in Inyokern to 27.9 percent in McFarland. McFarland was one of the few cities in Kern County to experience an increase in the city unemployment rate. In Bakersfield, 8.2 percent of persons in the labor force are unemployed, about 1 in every 12 persons in the labor force.

As the median sales price of houses continued to rise in Kern County to $206,000, a level not reached since 2008, 139 more homes were sold in Kern County, compared to the second quarter of 2015. Thus, total sales increased from 3,325 to 3,464 homes. In Bakersfield, the median home price increased by $3,833 as home sales increased from 2,335 in the second quarter of 2015 to 2,468 in the third quarter of 2015. This hid the fact that continued oil price stagnation reduced the growth rate of building permits, as only 573 new permits were issued this quarter (compared to 615 in the second quarter of 2015). The number of loan default notices sent to homeowners continued to fall, declining by almost 14 in the third quarter of 2015 compared to the second quarter of 2015.

The weighted price index for the five publicly traded companies doing business in Kern County (Sierra Bancorp, Tejon Ranch Company, Chevron Corporation U.S., Granite Construction, and Wells Fargo Company) decreased significantly from 96.7 in the second quarter of 2015 to 90.2 in the third quarter of 2015, a decline of 6.5 percentage points. This supports the decline in business profits, as firms continue to struggle with county-specific shocks that impact industries relevant to Kern County. Chevron (a decline of 12.4 percent), Wells Fargo (a decline of 3.8 percent), Sierra Bancorp (a decline of 6.4 percent), Granite Construction (a decline of 7.6 percent) and Tejon Ranch (a decline of 7.6 percent) all saw a decline in their stock prices. As oil impacts a wide range of county-specific industries (construction, housing, services), continued low oil prices hurt a wide variety of businesses.

With the continued stagnation in oil prices, gas prices finally dropped, down $0.62 per gallon since the last quarter, averaging $2.90 a gallon. The unit price of California’s Class III milk also decreased, though only marginally, from $16.24 in the second quarter of 2015 to $16.14 in the third quarter of 2015. Farmers suffered the most in California, even as they increased hiring substantially, likely in the hopes of making up money in early 2016. Prices received by farmers plummeted by 8 percentage points, from 107.7 in the second quarter of 2015 to 97.7 in the third quarter of 2015. Though prices paid by farmers also fell, it fell by only 1.3 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.