The State of Kern County’s Economy

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The San Joaquin Valley (hereafter, the Valley) is California’s top agricultural producing region. It consists of eight counties of Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus, and Tulare. With an area of 27,280 square miles, it takes 17 percent of the land area in California and accounts for 10 percent of California’s population. Although heavily engaged in farm production and exportation, the economic development strategy of the Valley calls for diversification to value-added agriculture, manufacturing, logistics, and services.

Like the rest of the country, the Valley is affected by the national recession that began in December 2007. Challenges facing the national economy are numerous:

- Low consumer confidence
- Weak consumer demand
- Declining business investment
- Massive business layoffs
- Financial market crisis
- Housing market recession
- Automobile industry recession
- Volatile and falling Stock Market
- Reduced demand for U.S. exports
- Greater capital outflow
- Mounting federal budget deficit
- Accumulating national debt

There is a good chance, however, for the U.S. economy to begin a slow recovery late 2009 or early 2010 due to expansionary monetary and fiscal policies. The Federal Reserve Board has taken extraordinary actions to drop the short-term interest rate to a historically low level. Additionally, the Federal Reserve Board has pumped much liquidity into the banking system in order to restore confidence to the financial market and to support consumer and business lending.

Furthermore, the Bush administration’s $750 billion “bail-out” package substantially supported financial institutions, which have issued risky mortgage loans, to remain solvent and gradually stabilize. Spending the remaining $350 billion of these rescue funds in the first half of 2009 would support investment and consumption. Short-term loans to the domestic automakers would also help the industry to restructure and become more competitive.
The “stimulus” package of the Obama administration is being implemented to end the recession. This $787 billion package includes spending on infrastructure ($120 billion), business tax cut ($142 billion), individual tax cut ($140 billion), aid to states ($154 billion), aid to the jobless ($60 billion), energy investment ($19 billion), and all other programs ($131 billion). The goal of the “stimulus” package is to create 3.5 million jobs over a period of two years.

California has been in serious economic crisis with the nation's second-highest housing foreclosure activity, near-double digit unemployment rate, and the country's lowest bond rating. The Valley’s recovery would be delayed as its economic conditions are aggravated by the budgetary actions taken by California’s governor and legislatures. The state’s $143 billion budget closes a $42 billion deficit through 2010 with large tax increases ($15.1 billion), deep spending cuts ($12.8 billion), and expensive borrowing ($14.1 billion), all of which will affect most Californians. As a result, the expansionary effects of the national “stimulus” package will be partly offset by the contractionary impacts of the state “balanced-budget” policy.

In this study, we will illustrate that 2008 was a forgettable economic year for the Valley and Kern County with

- Rapid labor force growth, but slow employment growth
- Rising unemployment and loss of personal income
- Business closures and layoffs
- Falling housing prices and rising foreclosure activity

We expect the Valley economy to continue to deteriorate before a recovery arrives. In this report, we will analyze data on labor market, economy, and housing market for the Valley in 2008 and provide some insight on changing conditions in 2009. Within this regional focus, we will pay particular attention to economic conditions of Kern County.

Data have been collected from various sources including California Labor Market Information, Bureau of Economic Analysis, Bureau of Census, Data Quick, Rand California, and The Kiplinger Letter.

1. Labor Market Conditions

1.1. Population

The Valley was home to nearly 4 million people in 2008. Fresno, the most populated county of the Valley, had a population of 931,000. In contrast, Madera, the least populated county, hosted 150,900 residents.

Kern, the second largest county of the Valley, had a population of 817,500. It accounted for about 21 percent of the Valley’s population.
1.2. Population Growth

The Valley’s population increased at a rate of about 2 percent as it added 69,400 people to its residence in 2008. If the Valley’s population continues to grow at this rate, it would host nearly 5 million residents in 2020. Kern was the fastest growing county of the Valley and Stanislaus was the slowest.

Kern’s population increased at a rate of 2.1 percent as it added 16,200 residents to its residents. If Kern’s population continues to grow at this rate, it would host more than 1 million residents in 2020.

1.3. Labor Force

Valley employers had access to a civilian labor force of nearly 1.8 million. The Valley’s work force accounted for about 46 percent of its population. Employers in Fresno could hire from a pool of more than 441,000 workers. However, Kings’ economy operated with a worker force of 60,400.
Kern had the second largest civilian labor force in the Valley. Its work force of 364,100 was 45.5 percent of its population and 20.5 percent of the Valley’s labor force.

![Figure 1.3. Labor Force](image)

**Figure 1.3. Labor Force**

<table>
<thead>
<tr>
<th>Region</th>
<th>Labor Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fresno</td>
<td>450,000</td>
</tr>
<tr>
<td>Kern</td>
<td>350,000</td>
</tr>
<tr>
<td>San Joaquin</td>
<td>300,000</td>
</tr>
<tr>
<td>Stanislaus</td>
<td>250,000</td>
</tr>
<tr>
<td>Tulare</td>
<td>200,000</td>
</tr>
<tr>
<td>Merced</td>
<td>150,000</td>
</tr>
<tr>
<td>Kings</td>
<td>100,000</td>
</tr>
<tr>
<td>Madera</td>
<td>50,000</td>
</tr>
</tbody>
</table>

**1.4. Labor Force Growth**

The Valley, growing at a rate of 2.9 percent, added 50,900 members to its labor force. With a growth rate of 4.7 percent, Merced had the fastest growing labor force. Growing at 1.3 percent, Tulare had the slowest growth rate. If the Valley continues to grow at this rate, it would have to create enough jobs to accommodate a labor force of more than 2.5 million in 2020.

Kern had the second fastest growing labor force in the Valley. Kern’s work force increased 3.5 percent from 351,900 in 2007 to 364,100 in 2008. If Kern continues to grow at this rate, it would have to create enough jobs to accommodate a labor force of nearly 480,000 in 2020.

![Figure 1.4. Labor Force Growth](image)

**Figure 1.4. Labor Force Growth**

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merced</td>
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<tr>
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<td>3%</td>
</tr>
<tr>
<td>Fresno</td>
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</tr>
<tr>
<td>San Joaquin</td>
<td>3%</td>
</tr>
<tr>
<td>Stanislaus</td>
<td>3%</td>
</tr>
<tr>
<td>Madera</td>
<td>2%</td>
</tr>
<tr>
<td>Tulare</td>
<td>1%</td>
</tr>
</tbody>
</table>
**1.5. Employment**

The Valley’s public agencies and private enterprises employed nearly 1.6 million workers. The Valley provided employment to 89.3 percent of its labor force. Fresno was the largest employer of the Valley and Kings the smallest.

Kern, the second largest employer of the Valley, provided 327,700 jobs for its labor force. These jobs provided income to 90 percent of Kern’s labor force.

![Figure 1.5. Employment](image)

**1.6. Employment Growth**

The Valley employed 9,500 more workers as its total employment climbed from 1.58 million in 2007 to 1.59 million in 2008. These additional jobs accounted for a growth rate of 0.6 percent. While Merced’s employment grew 2 percent, Madera and Tulare recorded job losses. If the Valley continues to grow at this rate, it would be able to support 2.2 million jobs in 2020.

Kern had the second fastest growing employment rate in the Valley. Kern’s employment increased 4,900 (or 1.5 percent) from 322,800 in 2007 to 327,700 in 2008. If Kern continues to grow at this rate, it would be able to support 456,000 jobs in 2020.
1.7. Unemployment Rate

The Valley’s unemployment rate averaged 10.5 percent, which was 3.3 percent greater than the state average. While Madera had the lowest rate of 9.7 percent, Tulare recorded the highest rate of 11.3 percent.

Kern’s unemployment rate of 10 percent was the second lowest in the Valley. It was 0.5 percent less than the Valley average and 1.3 percent lower than that of Tulare.

1.8. Unemployment Rate Change

The Valley’s unemployment rate increased 1.8 percent from 8.7 percent in 2007 to 10.5 percent in 2008. While Merced’s unemployment rate stayed constant, Stanislaus recorded the largest unemployment gain of 2.4 percent.
Kern’s unemployment rate rose 1.7 percent from 8.3 percent in 2007 to 10 percent in 2008.

![Figure 1.8. Unemployment Rate Change](image)

2. Economic Conditions

2.1. Personal Income

The Valley generated nearly $86.5 billion (in constant 2000 prices) in personal income. Fresno, the largest economy of the Valley, created about $21 billion in personal income. Madera, the smallest economy of the Valley, produced almost $3 billion in personal income.

Kern, the second largest economy of the Valley, produced $17.7 billion in personal income. Kern accounted for about 20.5 percent of the Valley’s economy. Kern’s personal income was $3.3 billion less than that of Fresno, but $14.7 billion more than that of Madera.
2.2. Personal Income Growth

The Valley’s economy has fallen at an annual rate of 0.9 percent, 1.3 percent slower than that of 2007. This economic decline resulted in a loss of $629 million in personal income. If this recessionary condition continues into 2009, Valley economies will be losing nearly $900 millions more. While Kings recorded a sluggish growth rate of about 1 percent, Merced’s economy declined nearly 3 percent.

Kern’s economy slowed considerably in 2008. It declined at an average annual rate of 0.6 percent, compared with a growth rate of 2.5 percent in 2007. This economic decline resulted in a loss of $106 million in personal income. If this recessionary condition continues into 2009, Kern will be losing nearly $180 millions more.
2.3. Per Capita Personal Income

Valley economies produced $21,160 (in constant 2000 prices) in per capita personal income. The Valley’s per capita personal income was $14,560 less than that of the state average. While Stanislaus had the highest per capita personal income of $23,530, Madera had the lowest per capita personal income of $18,900.

Kern had the fourth largest per capita personal income in the Valley. Kern’s per capita personal income of $21,900 was $740 more than the Valley average, but $1,630 less than that of Stanislaus.

2.4. Per Capita Personal Income Growth

The Valley’s per capita personal income declined 2.7 percent in 2008. The Valley recorded such a large annual decline because its 0.9 percent fall in personal income was aggravated by 1.8 percent increase in population. Such a sharp decline occurred in all Valley economies. Merced had the fastest decline in per capita personal income, while Kings had the slowest.

Kern’s rapid population growth rate of 2.1 percent coupled with its personal income growth rate of -0.6 percent caused the county’s per capita personal income to fall at a sharp rate of 2.7 percent. If this recession continues in 2009, Kern’s per capita personal income will reach $21,310 for a loss of $590.
The Valley’s median household income averaged $38,100 (in constant 2000 prices) in 2008, $19,600 less than that of the state average. San Joaquin had the largest median household income of $43,300, while Tulare’s median household income of $35,110 was the lowest.

Kern’s median household income of $37,100 was $1,000 less than the Valley average and $6,200 less than that of San Joaquin, but $1,900 more than that of Tulare.
3. Housing Market Conditions

3.1. Median Housing Price

The Valley’s median sales price for all residential units averaged $192,750 in 2008. With the median price of $215,000, housing was most expensive in Fresno and San Joaquin. In contrast, Merced’s median price of $155,000 was least expensive.

Kern offers affordable housing to its residents. Its median sales price of $190,000 was $2,750 less than that of the Valley, but equal to those of Madera and Stanislaus.

![Figure 3.1. Median Housing Price](chart)

3.2. Median Housing Price Change

The Valley’s median sales price for all residential units depreciated sharply from $288,150 in 2007 to $192,750 in 2008. As a result, the median price depreciated $95,400 (or 33.1 percent). San Joaquin recorded the largest depreciation value of $161,000, while Merced had the highest depreciation rate of 46.6 percent.

Kern had also sharp housing price depreciation. Its median sales price plunged $70,000 (or 26.9 percent) from $260,000 in 2007 to $190,000 in 2008.
3.3. Housing Sales

The Valley’s housing sales totaled 54,329 in 2008. San Joaquin recorded the largest sales of 12,740 units, whereas Kings had the smallest sales of 698 units.

Kern had the second largest sales in the Valley. Its sales totaled 11,270 units. Kern’s sales was 1,470 units fewer than that of Stanislaus, but 10,572 more than that of Kings.

3.4. Housing Sales Change

The Valley’s housing sales increased from 45,201 in 2007 to 54,329 in 2008. As a result, 9,128 (or 20.2 percent) more homes were sold. In San Joaquin, sales climbed by 5,270 units (or 70.5 percent). Likewise, sales increased sharply in Stanislaus (3,752 units or 67 percent) and Merced (2,063 units or 80.1 percent). However, housing sales declined in other counties.
Kern’s housing sales declined from 11,433 in 2007 to 11,270 in 2008 as 163 (or 4.1 percent) fewer homes were sold.

![Figure 3.4. Housing Sales Change](image)

3.5. New Residential Building Permits

The Valley issued 8,173 permits for the construction of new privately-owned dwelling units in 2008. More than 2,000 permits were issued in Kern and Fresno, but less than 500 permits were issued in Stanislaus, Merced, Madera, and Kings.

![Figure 3.5. New Building Permits](image)

Kern issued 2,400 permits for the construction of new privately-owned residence in 2008. This number of permits was the highest in the Valley.

3.6. New Residential Building Permits Change

The Valley’s construction activity slowed considerably. The number of permits issued for the construction of new privately-owned dwelling units declined by 6,999 (or 46.1 percent) from 15,172 in 2007 to 8,173 in 2008. Stanislaus issued 1,585 fewer building permits. In Kings, the number of new building permits declined by 82.
Kern had the second largest decline in the number of permits issued for the construction of new residential units. The number of permits dropped by 1,585 (or 42.8 percent) from 3,699 in 2007 to 2,400 in 2008.

3.7. Foreclosure Activity

The Valley’s foreclosure activity was one of the highest in the nation. In 2008, 41,568 Valley homeowners received notices of loan default from their mortgage lenders. San Joaquin, with 11,566 defaulting homeowners, was most active. In contrast, Kings, with 250 defaulting homeowners, was least active.

Kern had the third highest foreclosure activity in the region. In 2008, 7,567 county homeowners received notices of loan default from their mortgage lenders. Kern’s number of default notices was 3,799 fewer than that of San Joaquin, but 7,317 more than that of Kings.
3.8. Foreclosure Activity Change

The Valley’s foreclosure activity accelerated 205.3 percent from 13,615 in 2007 to 41,568 in 2008. As a result, 27,953 more homeowners received notices of loan default from their mortgage lenders. All counties were facing serious housing foreclosure. The most active counties were San Joaquin with an increase of 7,594 and Madera with 302.2 percent rise in defaulting homeowners.

Kern placed third in the rise of foreclosure activity behind San Joaquin and Stanislaus. Kern’s foreclosure activity accelerated 185.8 percent from 2,648 in 2007 to 7,567 in 2008. As a result, 4,919 more homeowners received notices of loan default from their mortgage lenders.

3.9. Housing Affordability

The Valley’s housing affordability indicator of 24 percent is measured as the median household income of $57,700 (in current dollars) divided by the median housing price of $192,750. Merced had the highest affordability indicator of 28.8 percent, but Fresno had the lowest rate of 20.3 percent.

Kern’s housing affordability indicator of 23.5 percent is measured as the median household income of $44,570 (in current dollars) divided by the median housing price of $190,000. Being the forth highest among all counties, Kern’s affordability indicator was 5.3 percent lower than that of Merced, but 3.2 percent higher than that of Fresno.
3.10. Housing Market Recession

When will prices stop falling to help end the housing market recession? In light of rising unemployment and falling household income, housing prices must fall more rapidly in order to stabilize housing affordability at its normal rate of 33 percent. Assuming 1.8 percent erosion in household income in 2009, we hypothesize that the median housing price should continue to fall until an affordability indicator of 33 percent is reached.

The Valley would require an additional depreciation of 29.2 percent in order for its affordability indicator to reach 33 percent. In doing so, the Valley’s median housing price should fall to its 2001-02 level of $136,400. Likewise, Fresno would require an additional depreciation of 39.4 percent for its median housing price to reach the level of 2001-02. Likewise, Merced’s median housing price must fall an extra 14.4 percent to reach the level of 2000-01.

Kern would require an additional depreciation of 30.2 percent for its affordability indicator to reach 33 percent. In doing so, its median housing price should fall to $132,600, which would be within its 2002-03 range.

<table>
<thead>
<tr>
<th>Location</th>
<th>Median Price</th>
<th>Depreciation Rate</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fresno</td>
<td>$130,200</td>
<td>-39.4%</td>
<td>2001-02</td>
</tr>
<tr>
<td>Kern</td>
<td>$132,600</td>
<td>-30.2%</td>
<td>2002-03</td>
</tr>
<tr>
<td>Kings</td>
<td>$132,200</td>
<td>-32.2%</td>
<td>2002-03</td>
</tr>
<tr>
<td>Madera</td>
<td>$132,400</td>
<td>-30.3%</td>
<td>2001-02</td>
</tr>
<tr>
<td>Merced</td>
<td>$132,700</td>
<td>-14.4%</td>
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<td>-28.0%</td>
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<td>Tulare</td>
<td>$126,000</td>
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<tr>
<td>San Joaquin Valley</td>
<td>$136,400</td>
<td>-29.2%</td>
<td>2001-02</td>
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</table>