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Volume 22, Issue 1



CSU Bakersfield

KERN ECONOMIC JOURNAL

2020 1st Quarter

KERN ECONOMIC JOURNAL is a quarterly publication (February, May, August, November) of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the economic well-being of Kern County. This journal provides useful information and data that can help the community make informed economic decisions. Sources of funding for this journal include university contributions and 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 electronic copy. Individual authors are responsible for the views and research results.

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ECONOMY AT A GLANCE! **2020 FIRST QUARTER**

DR. RICHARD S. GEARHART III & DR. NYAKUNDI MICHIEKA

National Economy¹

The U.S. economy contracted at an annual rate of 5.0 percent in the first quarter of 2020, compared to 2.1 percent (revised) in the fourth quarter of 2019. This is the worst quarter performance since the Great Depression. The Bureau of Economic Analysis (BEA) reported that the decrease in GDP was largely, but not wholly, related to COVID-19, and the simultaneous demand- and supply-shocks. The decrease reflected negative contributions from personal consumption expenditures (PCE), private inventory investment, exports, and nonresidential fixed investment. These were partly offset by positive contributions from residential fixed investment, as well as all levels of government spending. This ends the anemic 2-percent growth we have seen post-2010, and likely signals the potential for a long-term recession.

Current dollar personal income decreased by 1.1-percent in the first quarter of 2020, a substantial decrease from the fourth quarter of 2019, which saw an increase of 0.8-percent. Real disposable personal income, which is adjusted for inflation and taxes, decreased by 0.9 percent in the first quarter, compared to 0.2 percent growth in the fourth quarter of 2019. This suggests an economic contraction that was both preceded by COVID-19, as well as worsened by COVID-19. The personal savings rate increased to 9.63 percent in the first quarter of 2020, reaching 12.4 percent in March of 2020. This hints that many consumers are worried about their short- and long-term financial futures, and are reducing spending in anticipation of a long slowdown.

The Conference Board's Index of Leading Economic Indicators – a measure of future economic activity – decreased 6.7 percent in March to 104.2, its largest decline in its history. The indicator increased by 0.4 percent in January, with a 0.2 percent decrease in February, suggesting that there are considerable economic uncertainties with the outcome of COVID-19.

The University of Michigan's Consumer Sentiment Index increased from 97.2 in the fourth quarter of 2019 to 96.6 in the first quarter of 2020; this was driven by a substantial decrease between February and March. This highlights substantial worries about the COVID-19 pandemic in America.

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/becountry.cfm?cid=1>.

The University of Michigan Consumer Sentiment Index is found at <http://www.sca.isr.umich.edu/tables.html>.

State Economy²

In California, the unemployment rate increased to 4.4 percent in the first quarter of 2020, compared to 3.9 percent in the fourth quarter of 2019. Among counties in March of 2020, San Mateo (2.8 percent), San Francisco (3.1 percent), Santa Clara (3.4 percent), Orange (3.7 percent), San Luis Obispo (3.8 percent), Sonoma (3.7 percent), and San Diego (4.2 percent) had unemployment rates below the state average. In contrast, Sacramento (4.8 percent), Los Angeles (6.6 percent), San Joaquin (8.4 percent), Fresno (11.0 percent), Kings (12.4 percent), and Kern (12.1 percent) had unemployment rates above the state average.

The state's civilian labor force decreased by 63,033 members, where 145,600 fewer employees had paying jobs (employed) and 82,600 more were left jobless (unemployed). While nonfarm industries hired 31,767 fewer workers, farming enterprises employed 4,500 fewer workers. The mining and logging sector hired 433 fewer workers while construction and manufacturing sectors hired 11,833 and 28,700 fewer workers, respectively, while the service sector added 9,200 workers. Other sectors adding jobs include information (24,200) and professional, scientific, technical services (21,867), and health care and social assistance (10,000). Retail trade saw 23,667 fewer workers, while government lost 6,267 workers.

Local Economy

The local economy saw a slight increase in the labor force, from 390,093 in the fourth quarter of 2019 to 394,767 in the first quarter of 2020. This increase was driven by 6,322 more nonfarm workers, with total farm employment decreasing by 5,574 workers. Unfortunately, there were 1,130 fewer employed workers this quarter, compared to the fourth quarter of 2019, and 5,822 more unemployed, which mirrors changes found elsewhere in California.

Importantly, the private sector employed 2,585 more workers, while the public sector (which includes education) increased employment by 3,737 workers. Salaries and wages increased by \$80,052,000 between the 2nd and 3rd quarters of 2019, suggesting that a tight labor market (where there are not many available employees to be hired from the pool of unemployed) is leading to wage increases, as employers attempt to entice employees with higher wages. Compared to four quarters ago, wages and salaries are \$220,606,000 higher, which is a 5.85 percent increase.

The unemployment rate varied between 2.73 percent in Ridgecrest to 30.43 percent in Delano. All cities in Kern County showed an increase in the unemployment rate, except for Ridgecrest. The largest increase in unemployment was found in Delano, increasing by 13.97 percent. Kern County's unemployment rate increased from 6.57 percent to 9.90 percent. This hints at potentially large troubles for both wages and other negative indicators (mortgage and rent delinquencies, poverty) if the depressed unemployment rate occurs for several months.

In the first quarter of 2020, the median home price in Bakersfield was \$261,133 compared to \$259,000 in the fourth quarter of 2019. Given supply limitations and growing demand for housing after the new year, this hints at a housing market that may

² The California economic numbers were obtained from the Bureau of Labor Statistics "Local Area Unemployment Statistics Map". This is found at <https://data.bls.gov/map/MapToolServlet?survey=la&map=county&seasonal=u>.

set records after the 2007 to 2009 recession, though COVID-19 may impact this. In Kern County, the lowest median price was found in Taft City (\$122,600), while the highest price was found in Tehachapi (\$303,200).

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 by 43.1 percentage points from 104.6 to 63.1. The index is 41.4 percentage points lower than what it was four quarters ago. All companies gained/lost as follows: Chevron (lost 39.9-percent quarter-over-quarter), Tejon Ranch (lost 12.0-percent quarter-over-quarter), Granite Construction (lost 45.1-percent quarter-over-quarter), Wells Fargo (lost 46.7-percent quarter-over-quarter) and Sierra Bancorp (lost 39.6-percent quarter-over-quarter).

The average retail price of gasoline decreased by \$0.64 to \$3.20. Gas prices are 0.1 percent higher than they were four quarters ago. The Index of Farm Price Parity increased to 82 percent from 79 percent in the fourth quarter of 2019.

Tracking Kern's Economy¹

2020 First Quarter

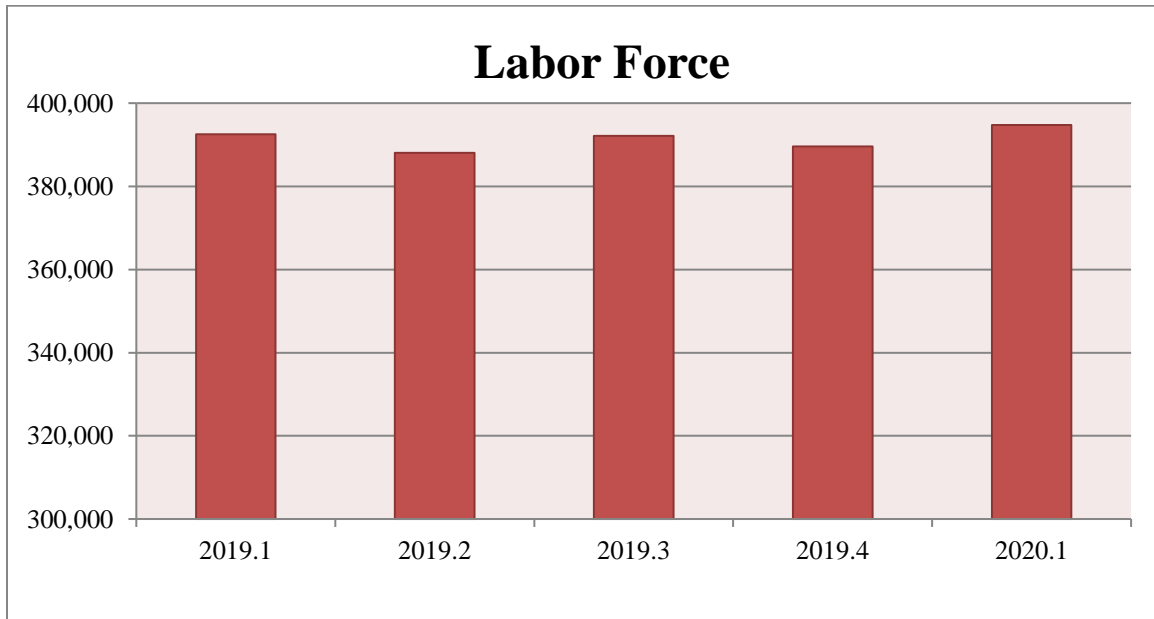
DR. RICHARD S. GEARHART III & DR. NYAKUNDI MICHIEKA

COVID Statement: Since we publish the Kern Economic Journal several months after the end of a quarter, we are writing this during the time of COVID-19. We know that there are significant labor market impacts that are being felt at the very end of March, throughout April, May, and June. However, we are attempting to analyze these numbers in light that most of the first quarter was spent not worrying about the worst impacts of COVID-19 and what could be. Our second quarter issue will be expanded to focus on the impacts of the economy of Kern County, and how we are responding to COVID-19.

Labor Market

We adjust published data in three ways. First, we average monthly data to calculate quarterly data. Second, we recalculate quarterly data to take into account workers employed in the “informal” market (i.e., self-employed labor and those who work outside their county of residence). Finally, we adjust quarterly data for the effects of seasonal variations.

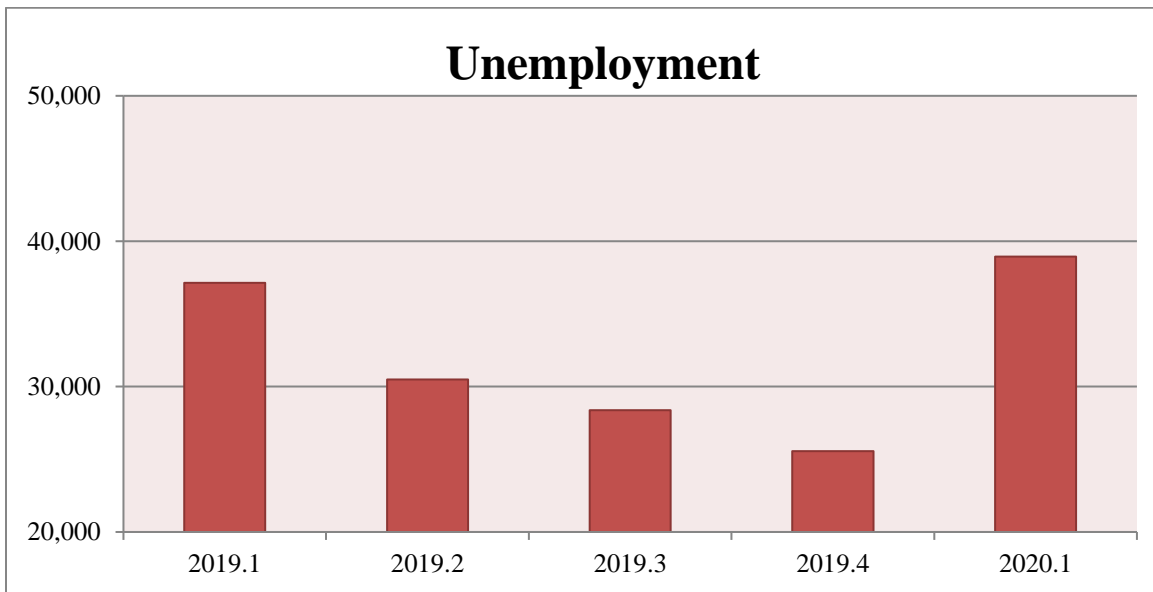
Labor Force – The civilian labor force increased by 5,200 members from 389,567 in the fourth quarter of 2019 to 394,767 in the first quarter of 2020. The increase in the labor force in the first quarter mirrors seasonal employment trends seen in Kern County for years, which is a jump in unemployment in the first quarter of the year, while employment falls but at a lesser rate (therefore increasing the labor force). Compared to the first quarter of 2019, our labor force is 2,267 members higher, suggesting that Kern County is a growing economy with a growing population base.



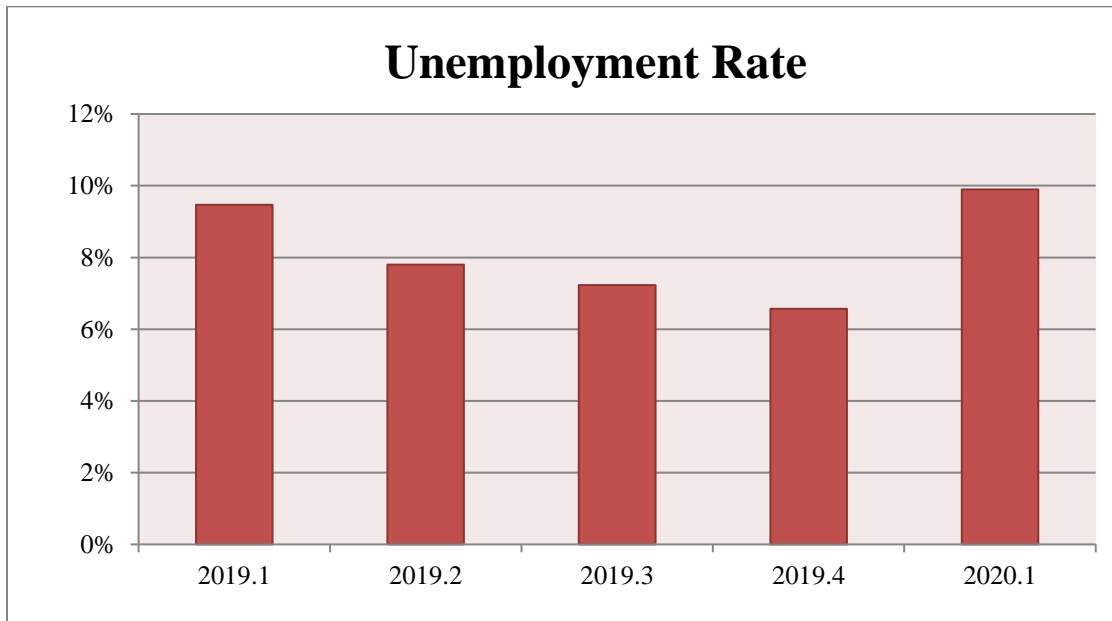
Employment – In the first quarter of 2020, Kern County hired 8,133 fewer workers as total employment decreased from 364,000 in the fourth quarter of 2019 to 355,867 in the first quarter of 2020. This is a 0.14 percent increase in employment compared to the first quarter of 2019. This means that employment is at the highest level that it’s been in Kern County ever in the first quarter, suggesting that the booming national economy is providing dividends around the country. It does suggest that there may be small jumps in the unemployment rate, as people begin to search for jobs and join the labor force, in anticipation of finding a job in a hot labor market.



Unemployment – In the meantime, 13,367 more workers were unemployed, as the number of jobless workers increased from 25,567 to 38,933. The number of unemployed workers is higher than that of four quarters ago. This again suggests a strong and healthy labor market, one that is at (or near) full employment, even given regulatory concerns related to oil and agriculture. What we should watch



Unemployment Rate – Kern County’s year-to-year unemployment rate increased by 0.43 percentage points from 9.47 percent in the first quarter of 2019 to 9.9 percent in the first quarter of 2020. The unemployment rate in the first quarter of 2020 was 3.33 percentage points higher than that in the fourth quarter of 2019 (6.57 percent in the fourth quarter of 2019 and 9.9 percent in the first quarter of 2020). This is the traditional shedding of holiday and farm jobs that occurs in the first quarter of 2020 each year.

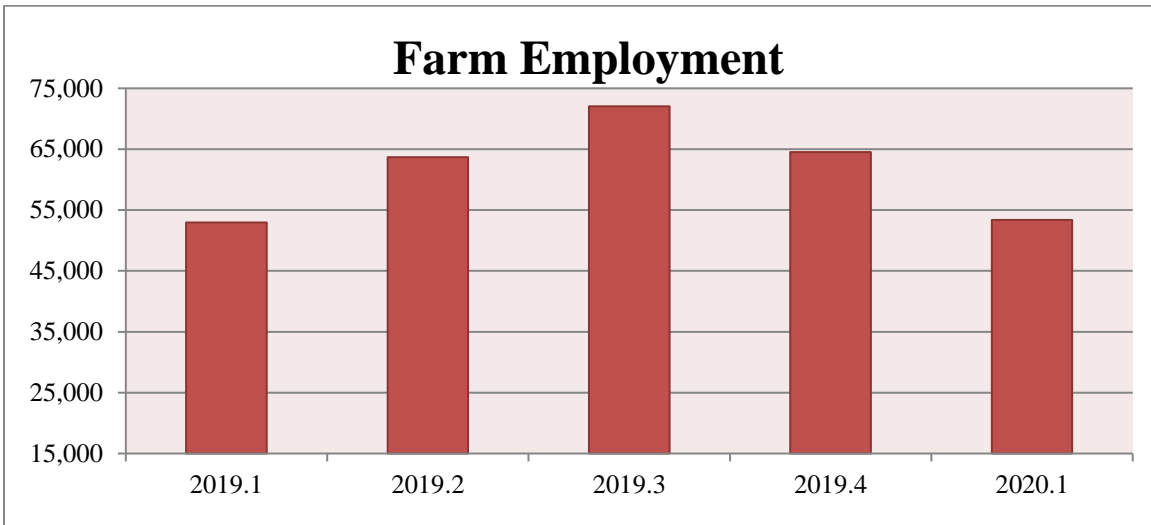


The rate of unemployment varied considerably across cities, ranging from 2.73 percent in Ridgecrest to 30.43 percent in Delano. Unfortunately, all cities in Kern County except Ridgecrest showed an increase in the unemployment rate. The biggest increase in unemployment occurred in Delano, going from 16.47 percent to 30.43 percent. In Bakersfield, the rate of unemployment was 6.07 percent in the first quarter of 2020 compared to 4.77 percent in the fourth quarter of 2019.

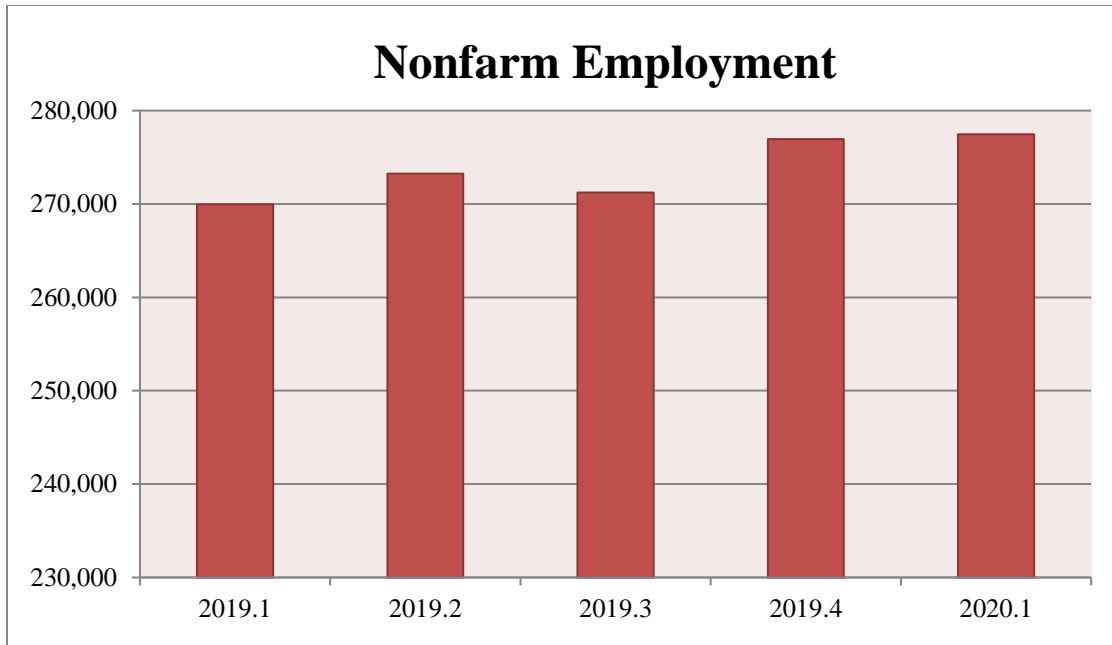
Unemployment Rate of Cities			
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
KERN COUNTY	9.90%	McFarland	12.53%
Arvin	9.33%	Mojave	21.77%
Bakersfield	6.07%	Oildale	14.40%
California City	19.33%	Ridgecrest	2.73%
Delano	30.43%	Rosamond	11.80%
Edwards	11.17%	Shafter	13.73%
Frazier Park	10.63%	Taft	6.30%
Lake Isabella	13.63%	Tehachapi	6.60%

Lamont	9.03%	Wasco	15.93%
Note: City-level data are not adjusted for seasonality and “informal” market workers.			

Farm Employment – In the first quarter of 2020, Kern County hired 11,100 fewer farm workers. As a result, farm employment decreased from 64,500 in the fourth quarter of 2019 to 53,400 in the first quarter of 2020. This represents a common seasonal decline, though one that is lower than in the past. The 53,400 first quarter farm employment figure represents the highest first quarter farm employment numbers ever, suggesting that the agriculture sector is primed for a new growing and planting season in 2020.

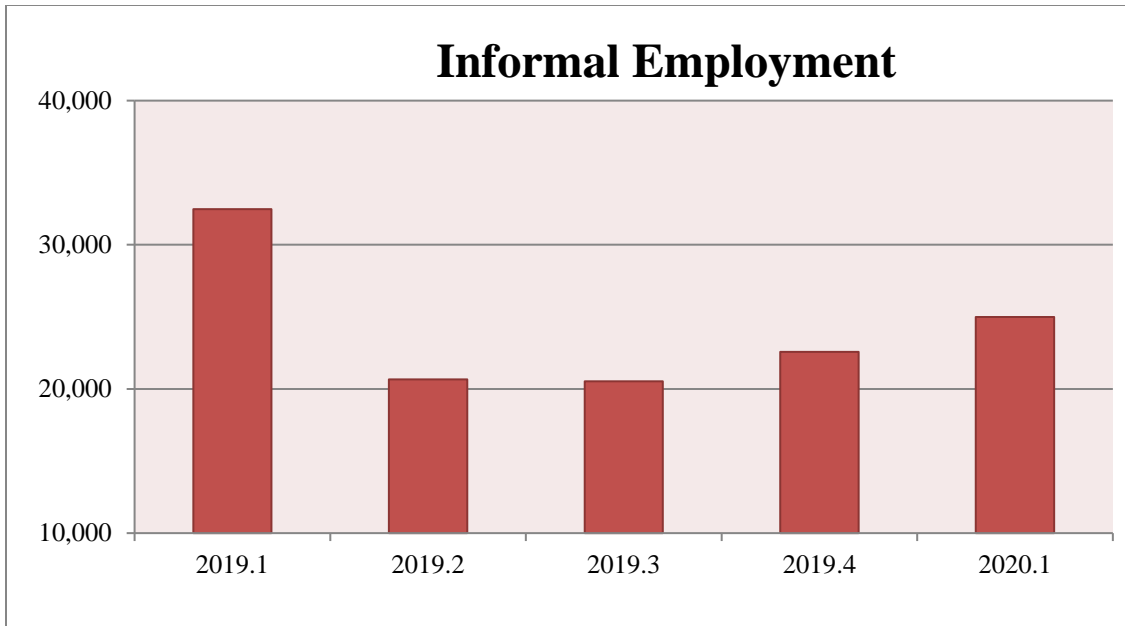


Nonfarm Employment – Local nonfarm industries employed 533 more workers in the first quarter of 2020. The number of nonfarm workers increased from 276,933 in the fourth quarter of 2019 to 277,467 more workers in the first quarter of 2020. Nonfarm industries hired 7,500 more workers compared to four quarters ago. Just like farm employment, nonfarm employment is at its highest levels ever in Kern County, again suggesting a labor market that is at full employment.

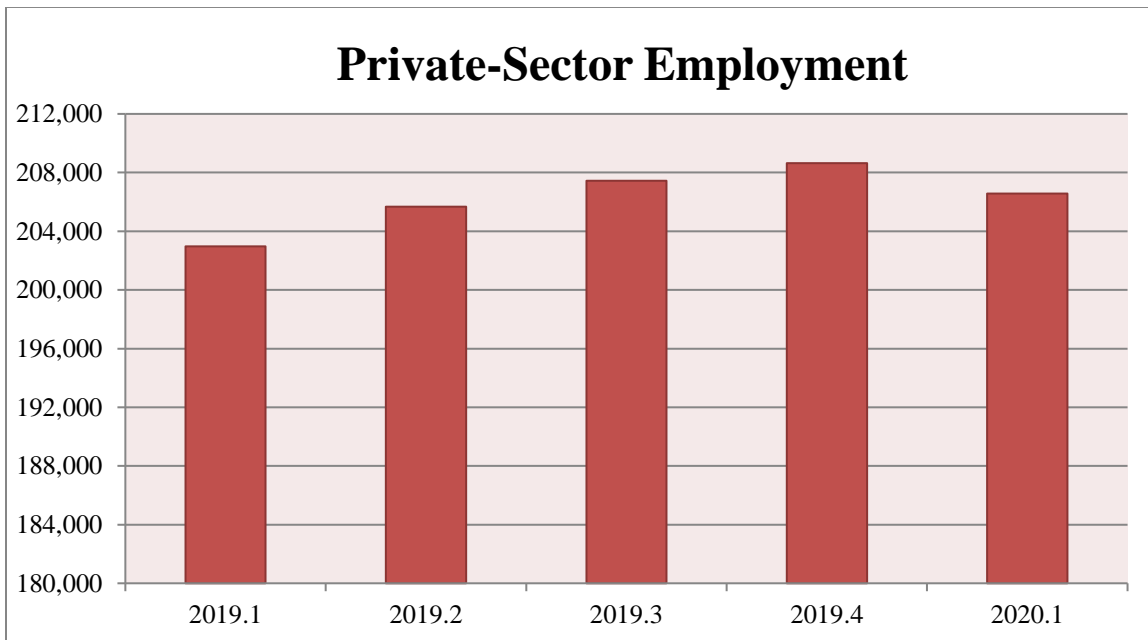


In Bakersfield, much of the increase in nonfarm employment came from a few sectors: durable goods manufacturing (322 workers gained); professional and business services (1,589 workers gained); educational services (233 workers gained); healthcare and social assistance (1,926 workers gained); leisure and hospitality (422 workers gained); and state and local government (3,111 workers gained). These were partially offset by losses in nondurable goods manufacturing (922 workers lost); retail trade (722 workers lost); information (189 workers lost); and department stores (333 workers lost).

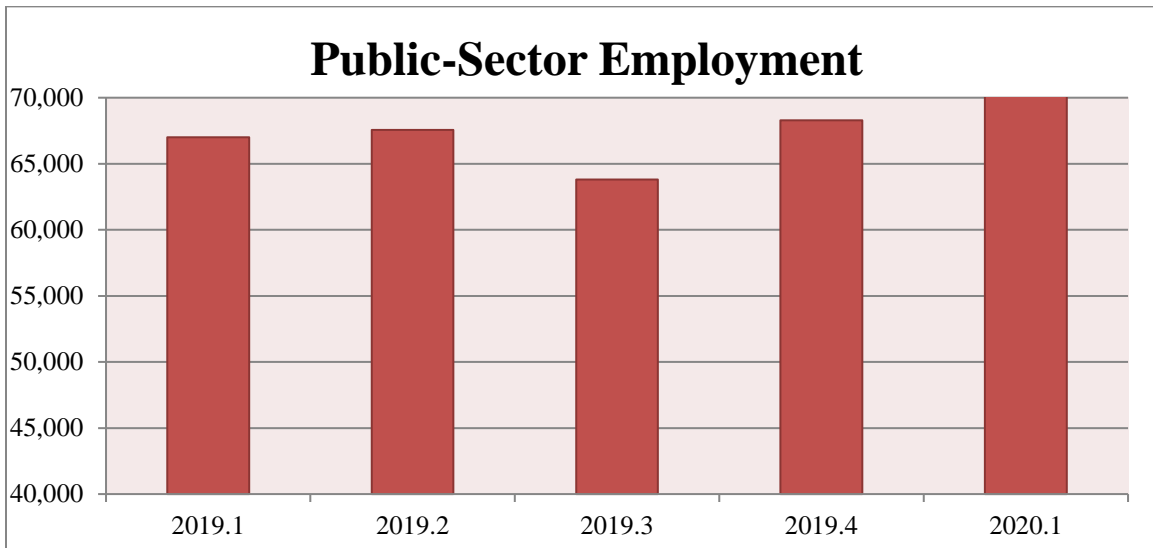
Informal Employment – Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and workers employed outside their county of residence. In the first quarter of 2020, the number of informal workers increased by 2,433 workers compared to the fourth quarter of 2019. Compared to the first quarter of 2019, there are 7,467 fewer informal workers. The number of residents who have sought to create their own jobs continues to slow down; it also represents a potential movement of seasonal workers to other counties, who choose to then work in Kern County. There are currently 25,000 informal workers in Kern County, which suggests that entrepreneurs and small businesses were especially hard hit (and are still recovering) from the 2007 to 2009 recession.



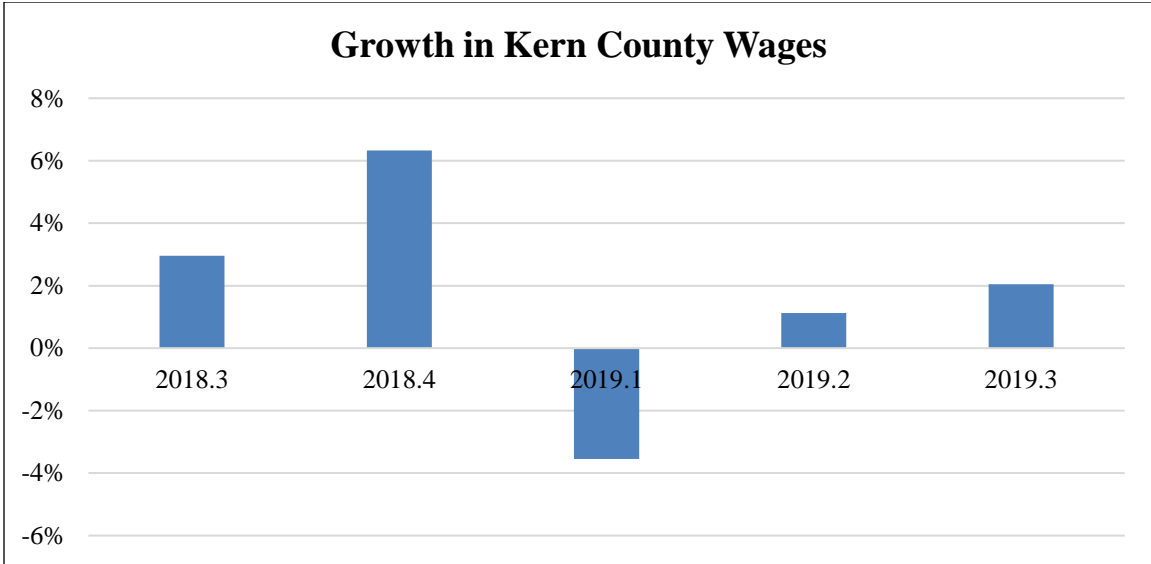
Private-Sector Employment – Nonfarm employment is comprised of private-sector employment and public-sector employment. In the fourth quarter of 2019, private companies hired 208,633 workers while the first quarter of 2020 numbers decreased to 206,567 workers. The private sector hired 3,600 more workers this quarter than four quarters ago. This again suggests that the employment and labor force growth we have seen in Kern County is pervasive, again suggesting that we are at (or near) full employment. It does also suggest that any first quarter employment gains are largely concentrated in the public sector, as private farm employment decreased seasonally.



Public-Sector Employment – The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the first quarter of 2020, government agencies hired 2,600 more workers as their employment increased from 68,300 to 70,900– a 3.81 percent increase. The year to year increase in employment was 5.82 percent, suggesting that the increase mirrors necessary growth in public sector activities that mirror a growing economy. It also potentially represents the impacts of the Measure N sales tax funding.



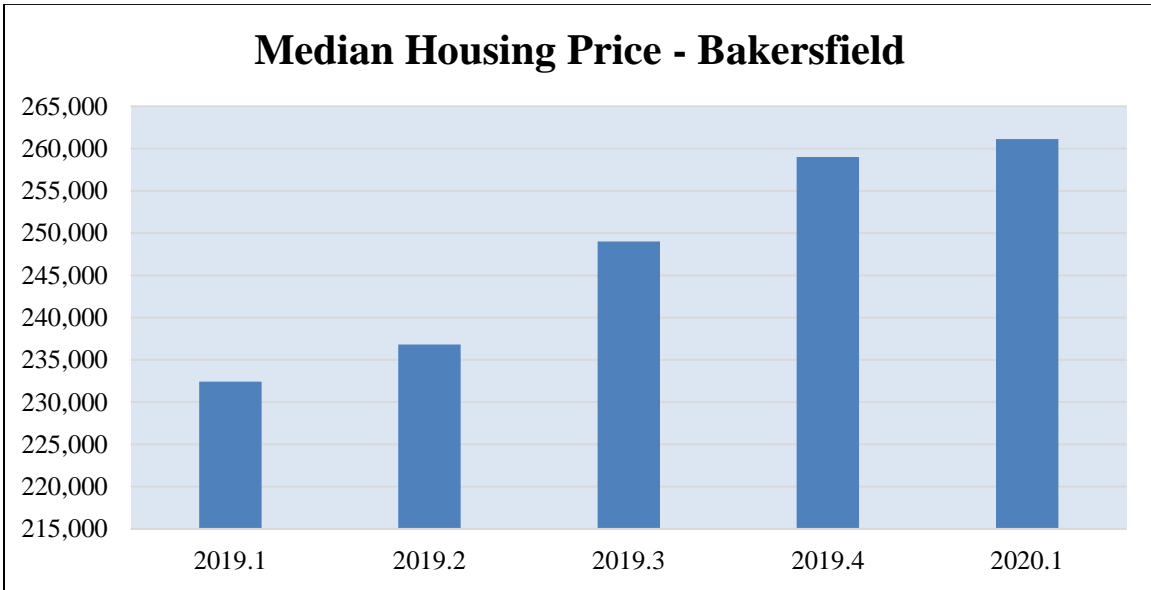
Growth in Salaries and Wages – Salaries and wages in Kern County increased from 3,914,387 (thousand) in the second quarter of 2019 to 3,994,439 (or 2.05 percent higher) in the third quarter of 2019. Compared to four quarters ago, salaries were higher 220,606 (thousand) dollars, or 5.85 percent. The increase in wage and salary growth quarter-to-quarter suggests that, in a tight labor market, when looking for new employees, employers must consider enticing employees of other businesses with more robust wage packages. Given that the historical quarterly change in wages (between the second and third quarters) are an increase of 3.8 percent, this again suggests that the Kern County labor market is at (or near) full employment.



Housing Market

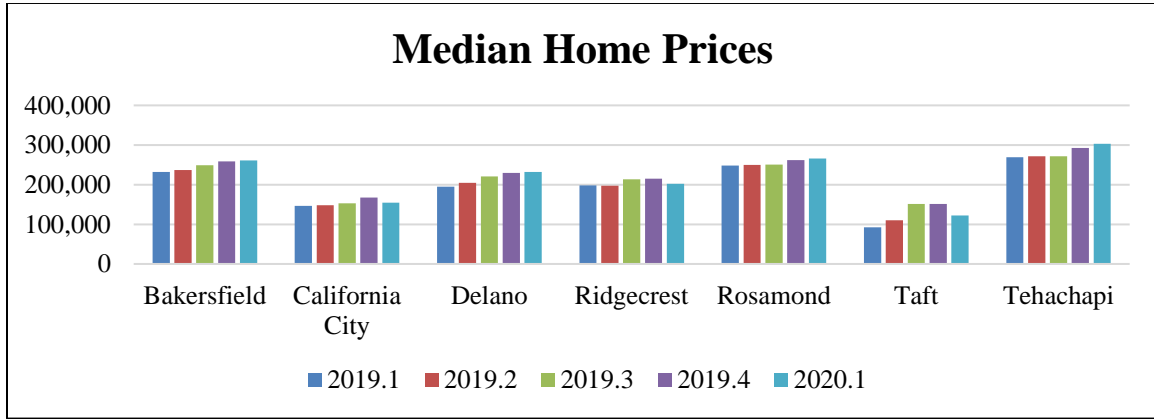
NOTE: Housing market data from traditional sources was suspect beginning in March 2020 (due to the impacts of COVID-19). Therefore, we interpret the quarter-to-quarter (and year-to-year) changes in the housing market with caution.

Housing Price – In the first quarter of 2020, Bakersfield’s housing prices increased by \$2,133 (0.82 percent) compared to the fourth quarter of 2019. The median home price averaged \$261,133 in the first quarter of 2020 compared to \$259,000 in the fourth quarter of 2019.



Regional Housing Prices – The changes in housing demand felt in Bakersfield are likely to spill over to the surrounding towns as individuals who are on the margin of buying or selling are likely not located in the Bakersfield MSA directly. Between the 4th quarter of

2019 and the 1st quarter of 2020, housing price declines were seen in California City (decrease of \$12,700); Ridgecrest (decrease of \$13,000); and Taft (decrease of \$28,733). Price increases were seen in Delano (increase of \$2,767); Rosamond (increase of \$4,433); and Tehachapi (increase of \$10,867).

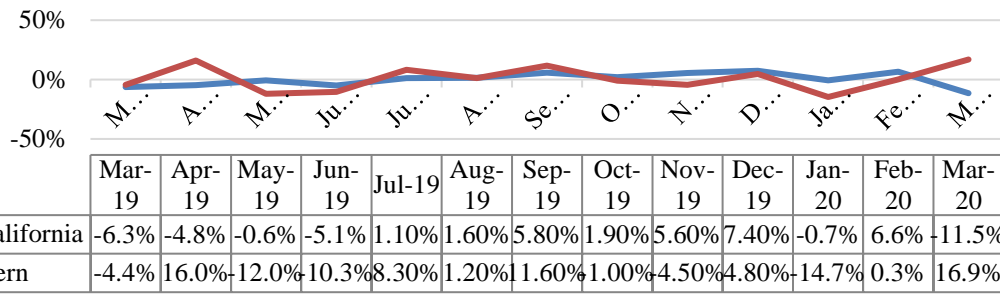


Housing prices varied across Kern County. Within the previous four quarters (2019.1 to 2020.1), the median sales price increased in all cities. Taft recorded the largest single digit increases in prices of 32.06 percent. The average change in home prices in the region year-on-year was 13.01 percent.

Location	Median Price	Median Price	Price Change (\$)	% Price Change
	2019.1	2020.1	2019.1 - 2020.1	2019.1 - 2020.1
Bakersfield	\$ 232,417	\$ 261,133	\$28,716.67	12.36%
California City	\$ 146,583	\$ 154,967	\$8,383.33	5.72%
Delano	\$ 194,833	\$ 232,100	\$37,266.67	19.13%
Ridgecrest	\$ 198,500	\$ 202,000	\$3,500.00	1.76%
Rosamond	\$ 248,000	\$ 266,100	\$18,100.00	7.30%
Taft	\$ 92,833	\$ 122,600	\$29,766.67	32.06%
Tehachapi	\$ 268,917	\$ 303,200	\$34,283.33	12.75%

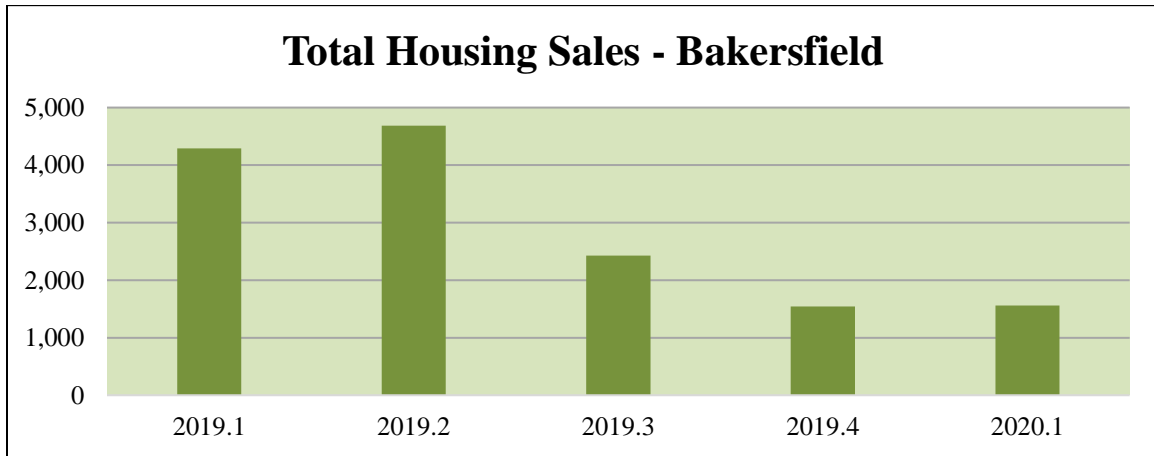
Growth in Housing Sales – We compare growth in sales of existing single family homes in Kern County with growth of sales in California. Positive values indicate that more homes were purchased this year compared to last year. In March 2020, sales of single family homes in Kern County were 0.9 percent higher than they were in the previous year, while sales were 0.1 percent higher in California. Overall, growth in sales in Kern County averaged 0.8 percentage points higher than California.

Percent Change of Sales of Existing Single Family Homes (Year to Year)

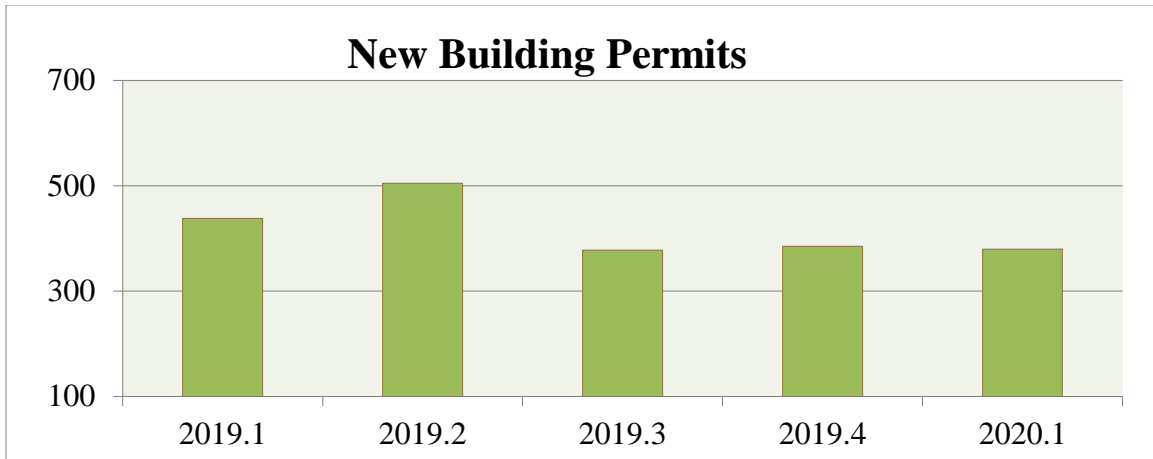


Housing Sales – In Bakersfield, quarter to quarter sales of residential units increased by 15 units, from 1,545 in the fourth quarter of 2019 to 1,560 in the first quarter of 2020. An average of 2,728 fewer homes were sold in the first quarter of 2020 compared to the first quarter of 2019. This drop in housing demand mirrors national trends. Interestingly, these housing drops are found during a tight labor market when labor market incomes are likely at all time highs, suggesting that people may be worried about medium-term economic prospects.

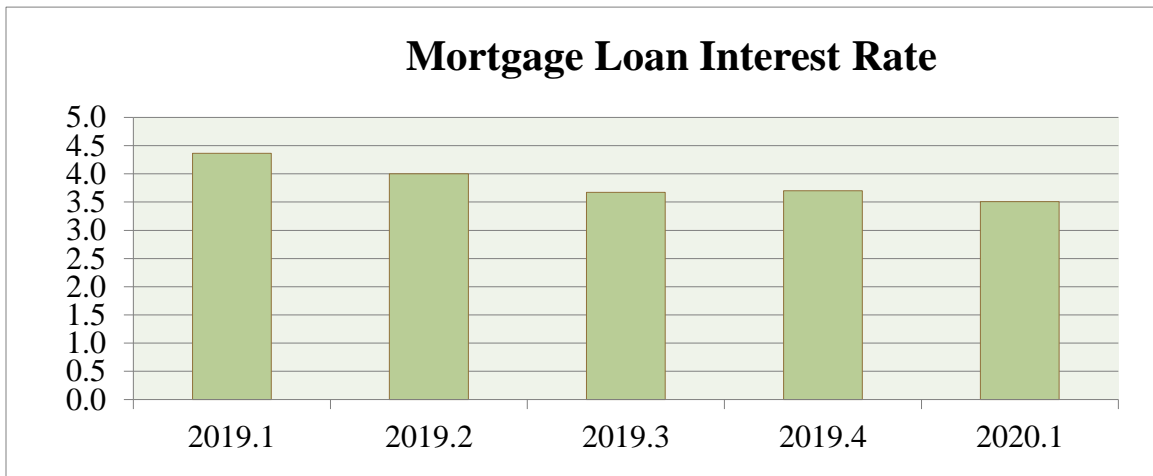
Total Housing Sales - Bakersfield



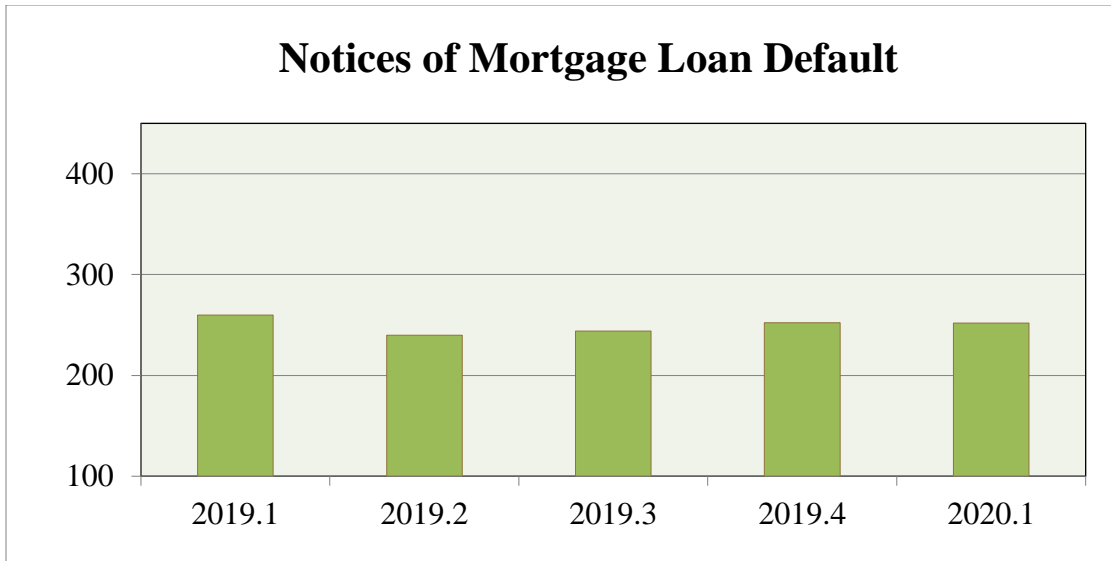
New Building Permits – In the first quarter of 2020, Kern County issued 5 fewer permits for construction of new privately-owned dwelling units compared to the fourth quarter of 2019. A total of 380 permits were issued this quarter compared to 438 in the first quarter of 2019. This slight increase in permitting indicates a continued slowdown of building activity, one that has not been seen since 2014. The 5-year average of permits issued in the fourth quarter is 469, indicating that this continued slowdown is significant.



Mortgage Interest Rate – In the first quarter of 2020, the interest rate on thirty-year conventional mortgage loans decreased slightly to 3.51 percent from 3.70 percent. The five year mortgage interest rate average is 4.01 percent. This slight decrease suggests that recent Federal Reserve quantitative easing, and the maintenance of low interest rates, may be filtering through to consumers.

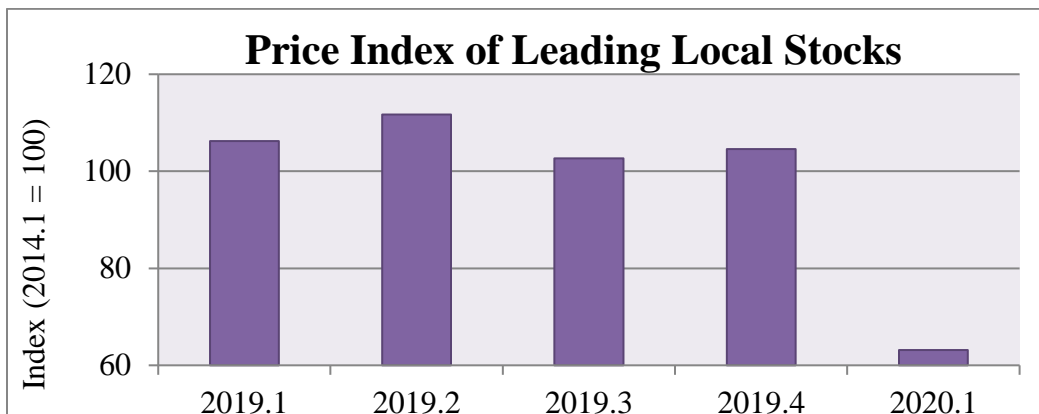


Housing Foreclosure Activity – There was no change in foreclosure activity, opposite to recent trends, as the number of new foreclosures remains at 252 in the first quarter of 2020. This number is also 8 units lower than four quarters ago. Though slightly higher than the lows we have seen, these are the lowest foreclosure rates in decades. This again suggests some concerns related to a potential 2020 recession.

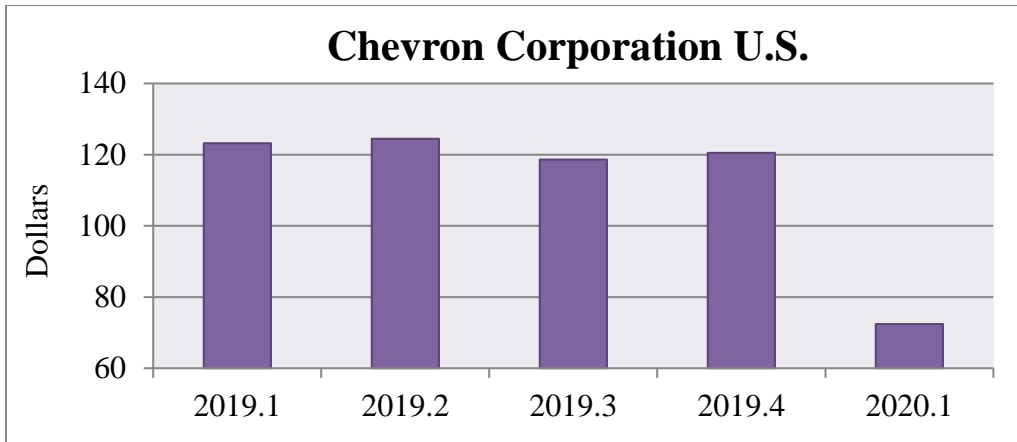


Stock Market

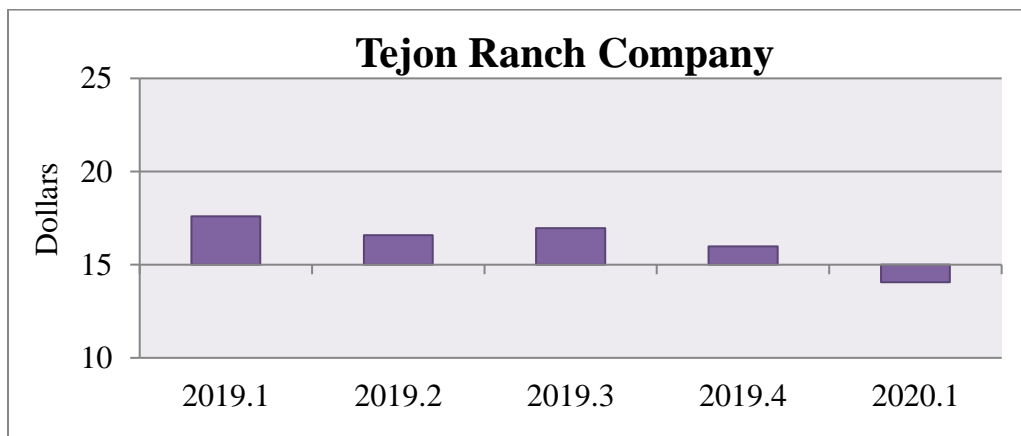
In the first quarter of 2020, the composite price index (2014.1=100) of the five publicly traded companies doing business in Kern County decreased by 39.6 percentage points from 104.6 to 63.1. The index is 40.5 percentage points lower than what it was four quarters ago. Average “close” prices were measured for five local *market-movers*: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp. This is all related to the stock market decline due to COVID-19.



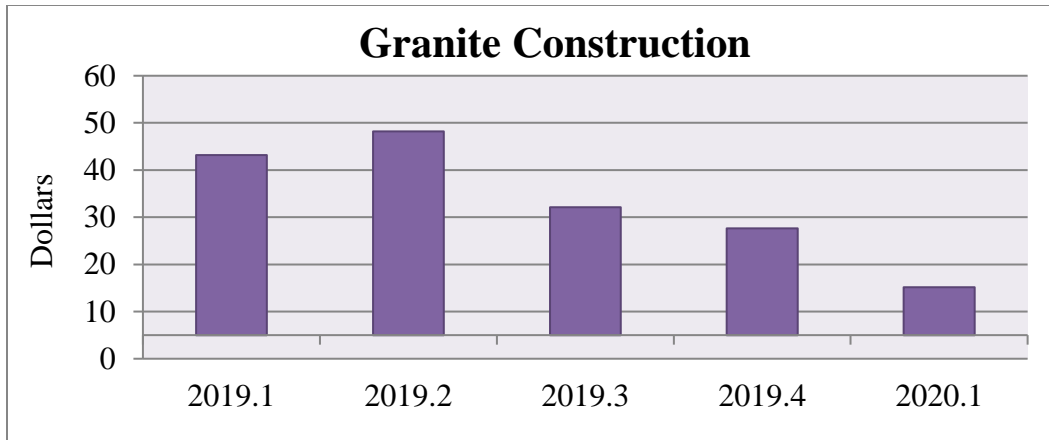
Chevron Corporation U.S.: Compared to the last quarter, CVX lost \$48.05 (or 39.9 percent) per share as its price decreased from \$120.51 to \$72.46. Relative to the first quarter of 2019, CVX was down \$50.72 (or 41.2 percent).



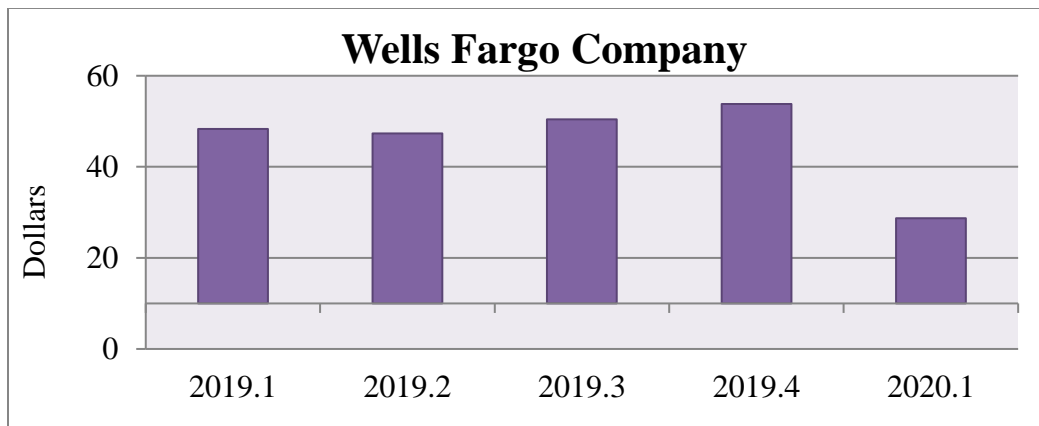
Tejon Ranch Company: TRC lost \$1.92 (or 12.0 percent) per share as its stock price decreased from \$15.98 to \$14.06 between the fourth quarter of 2019 and first quarter of 2020. Compared to last year, the TRC stock price is down \$3.54 (or 20.1 percent). Out of all the stocks measured in our index, the Tejon Ranch Company had the best relative performance in Kern County.



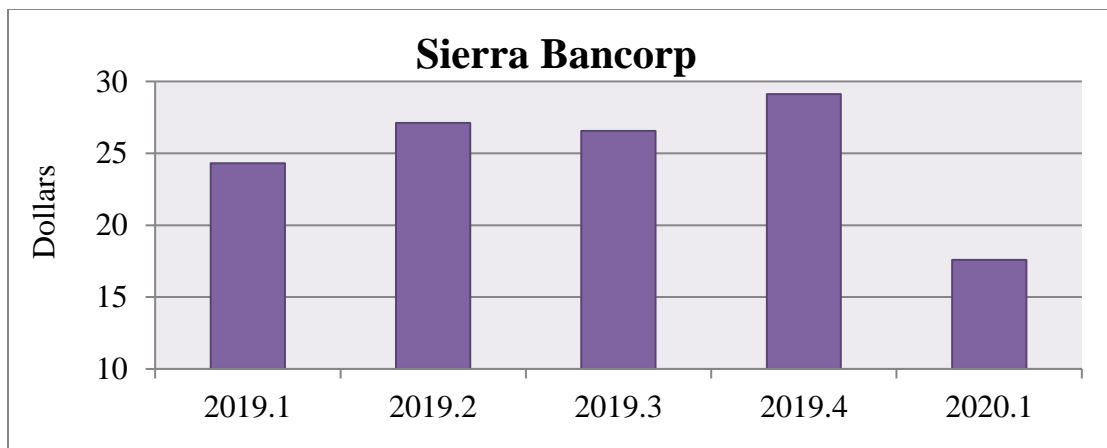
Granite Construction: GVA lost \$12.49 (or 45.1 percent) per share as its stock price decreased from \$27.67 to \$15.18 between the fourth quarter of 2019 and the first quarter of 2020. Similarly, GVA lost \$27.97 (or 64.8 percent) over the last four quarters.



Wells Fargo Company: WFC lost \$25.10 (or 46.7 percent) per share as its stock price decreased from \$53.80 to \$28.70 between the fourth quarter of 2019 and the first quarter of 2020. Relative to one year ago, WFC is down \$19.62 (or 40.6 percent).

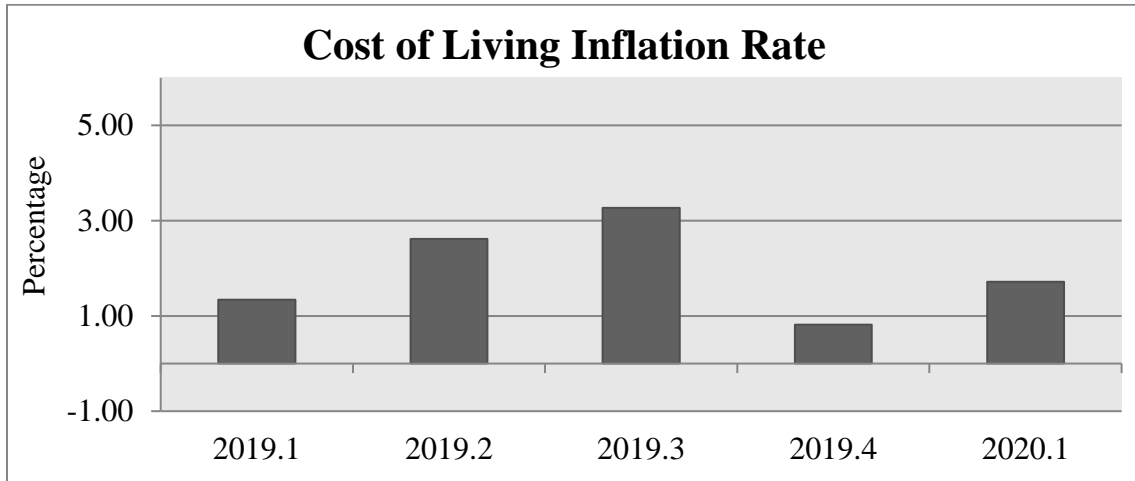


Sierra Bancorp: BSRR lost \$11.54 (or 39.6 percent) per share as its price decreased from \$29.12 to \$17.58. Similar to the other companies, BSRR lost \$6.72 (or 27.2 percent) since the first quarter of 2019.

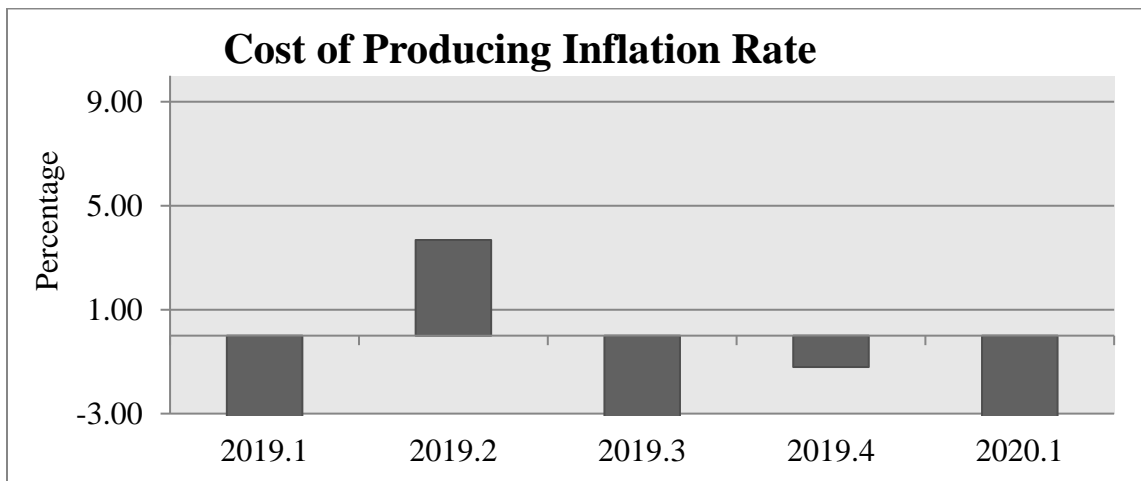


Inflation

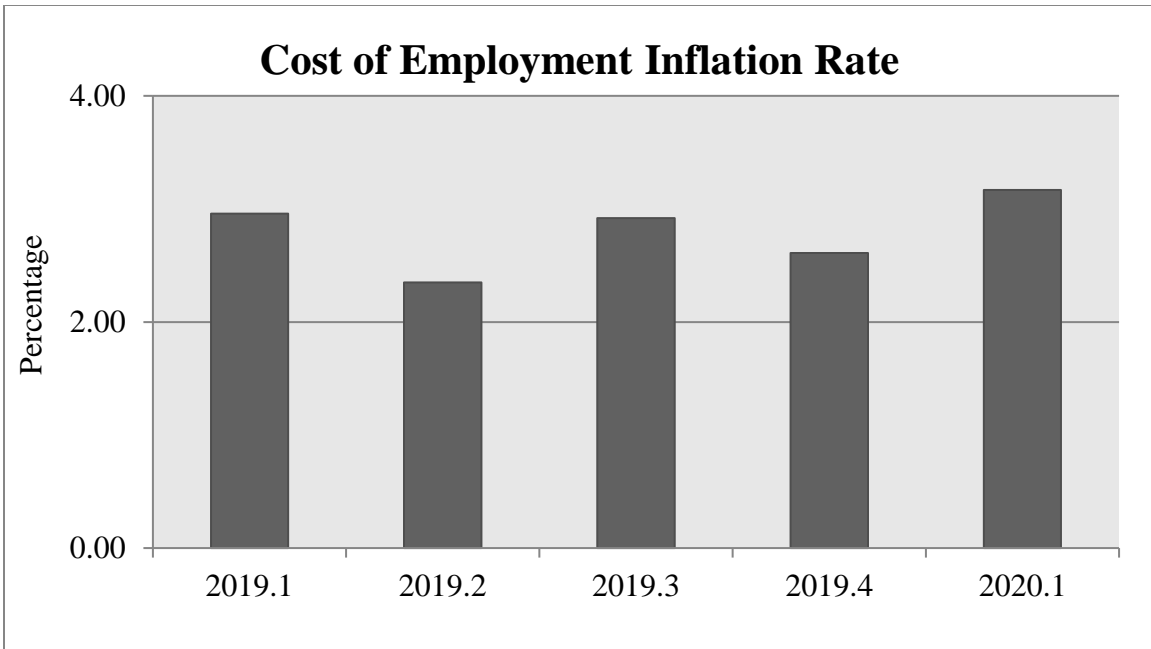
Cost of Living – In the first quarter of 2020, the Consumer Price Index for all urban areas (1982-84 = 100) increased slightly. Inflation for the cost of living increased by 1.72 percent. Given the growth in M1 and M2 money velocities, as well as quantitative easing undertaken by the Federal Reserve, this hints that liquidity is not making its way through the system in the form of inflation.



Cost of Production – The Producer Price Index for all commodities (1982 = 100) fell dramatically between the fourth quarter of 2019 and first quarter of 2020. The cost of production decreased at an annual rate of 4.69 percent. The cost of production inflation rate was -1.20 percent last quarter and -6.25 percent four quarters ago.

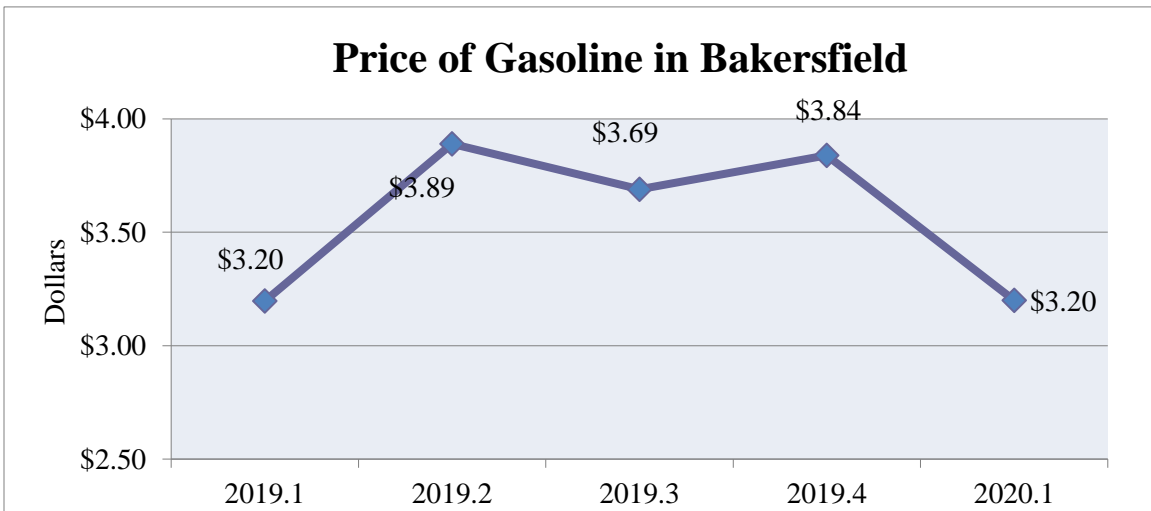


Cost of Employment – The Employment Cost Index (December 2005 = 100) for all civilian workers increased from 138.9 to 140.0. The cost of employment grew at an annual rate of 3.17 percent. The cost of employment inflation rate grew 2.61 percent last quarter and 2.96 percent four quarters ago.

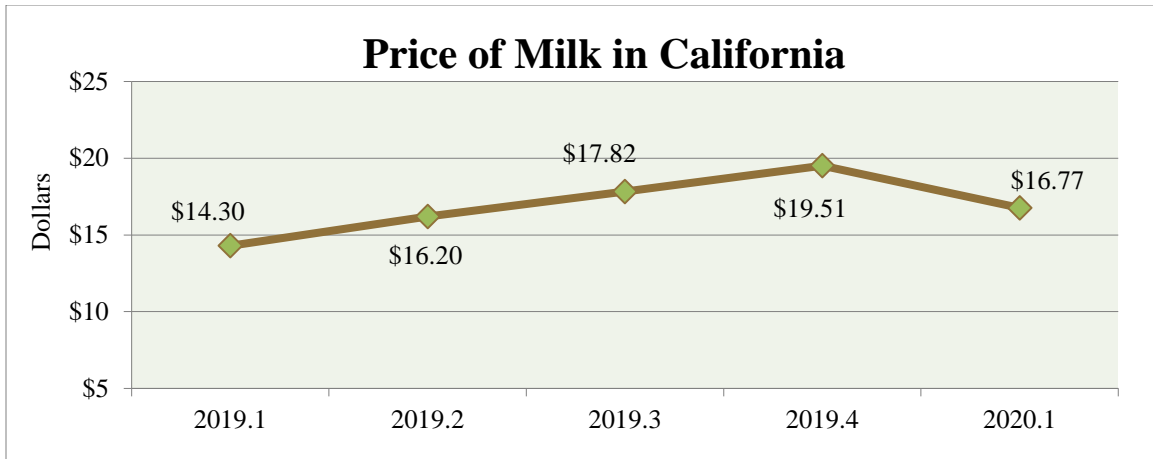


Commodity Prices

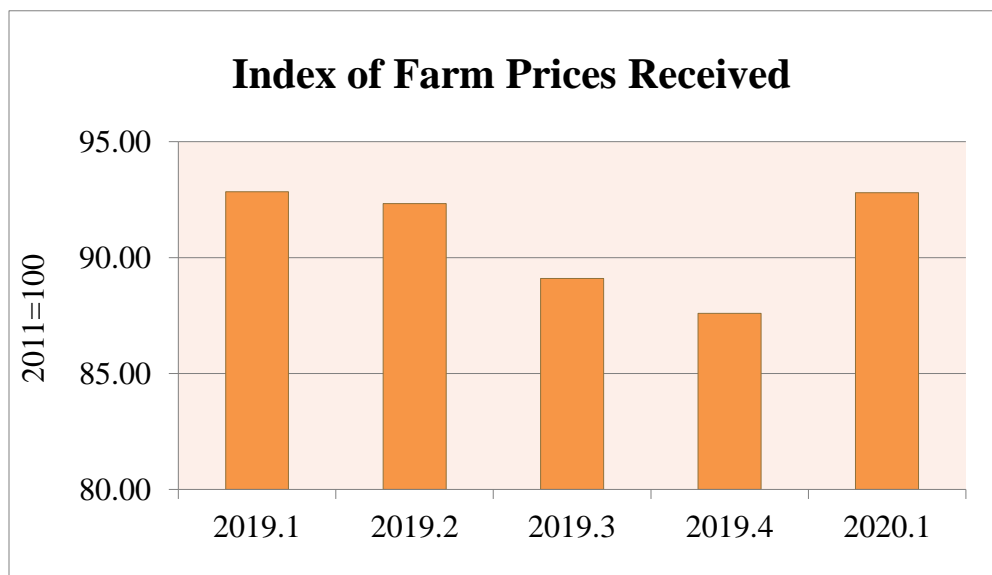
Price of Gasoline – In the Bakersfield Metropolitan Statistical Area, the average retail price of gasoline decreased by \$0.64 to \$3.20. This is solely related to the dramatic drop in driving demand due to COVID-19.



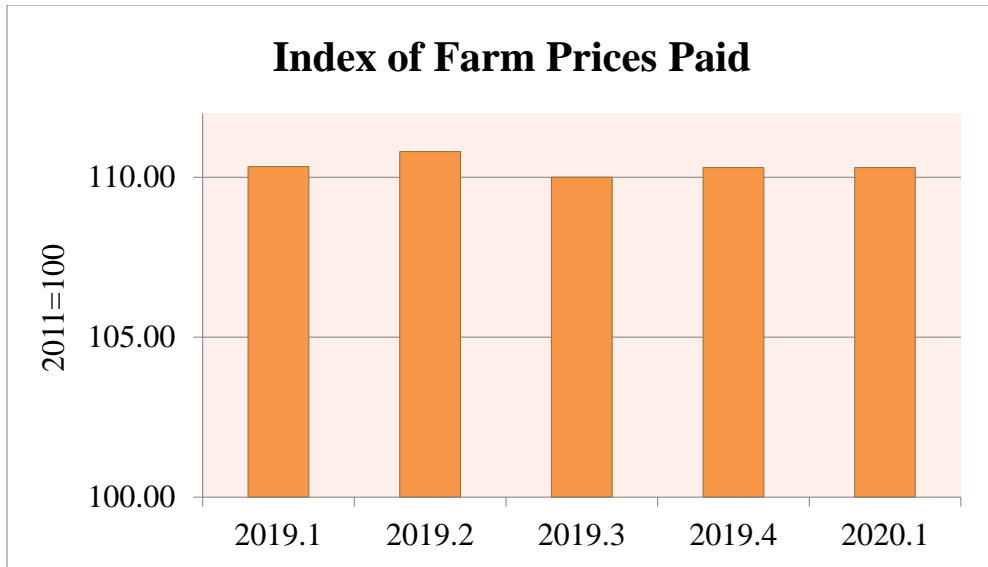
Price of Milk – The unit price of California’s Class III milk fell from the fourth quarter of 2019 to the first quarter of 2020, from \$19.51 to \$16.77. Though this is a sizable increase, the price is still \$2.47 higher (17.3 percent higher) than it was four quarters ago, suggesting that this quarter-on-quarter price change is seasonal, rather than structural.



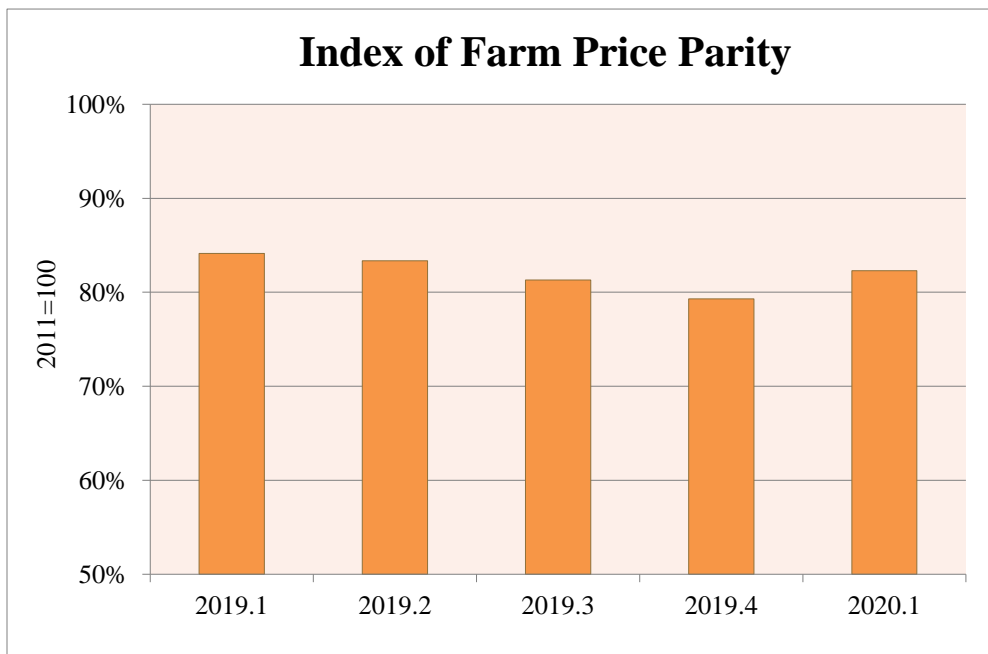
Farm Prices – In the first quarter of 2020, the National Index of Prices Received by Farmers for all farm products (2011 = 100) increased by 5.2 points, to 92.80 compared to 87.60 recorded in the fourth quarter of 2019. This is identical to the values from the first quarter of 2019.



Meanwhile, the National Index of Prices Paid by farmers for commodities, services, interest, taxes, wages, and rents did not change, remaining at 110.30. The index was 110.33 four quarters ago.



We measure the Index of Farm Price Parity as the ratio Index of Prices Received to the Index of Prices Paid. In the first quarter of 2020, the gap between prices paid and prices received increased, as the Index of Farm Price Parity increased to 82 percent. These parity levels are slightly lower than those witnessed in the first quarter of 2019. Four quarters ago, the price ratio was 84 percent.



¹ Source - Online databases: <http://www.labormarketinfo.edd.ca.gov>; www.usda.com; www.bakersfieldgasprices.com; www.bea.gov; www.car.org; www.trulia.com; www.census.gov; www.freddiemac.com; <https://www.cafmno.com>; www.bls.gov