CALIFORNIA STATE UNIVERSITY, BAKERSFIELD
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION

KERN ECONOMIC JOURNAL

Volume 11 Issue 1

The 10th Anniversary Issue

2009 First Quarter

Award of Merit from the California Association for Local Economic Development

www.csub.edu/kej/

KERN ECONOMIC JOURNAL is a quarterly publication 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. The journal provides useful information and data that can help the community make informed economic decisions.

We wish to gratefully acknowledge the Journal sponsors:

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. The journal provides useful information and data that can help the community make informed economic decisions. Sources of funding for the 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 hard or electronic copy. Individual authors are responsible for the views and research results.

Publisher and Managing Editor: Abbas Grammy, CSUB (661/654-2466)
Design & Production: Sylvia O'Brien, O'Brien Images (775/473-4169)
Content Editor: Emerson Case, CSUB

To become a sponsor, please visit www.csub.edu/kej for the sponsorship form and benefits or contact the Journal's Publisher and Managing Editor.

INSIDE THIS ISSUE:

Cover Page: *Student Recreation Center, CSUB* ***Photo Provided by:*** *University Advancement*

Econ Brief

Unemployment in California

Of the 372 metropolitan areas in the United States, 18 recorded jobless rates of at least 15 percent in March 2009, and 109 areas reported jobless rates of at least 10 percent. Among the top 10 areas with highest unemployment rates, 8 were in California. El Centro, recorded the highest unemployment rate of 25.1 percent. It was followed by Merced, Yuba City, Visalia-Porterville, Modesto, Fresno, Redding, and Hanford-Corcoran. Unadjusted for seasonal variations, the rate of unemployment in March 2009 was 9 percent in the U.S., 11.5 percent in California, and 12 percent in Kern County.

Worst places for jobs

U.S. metropolitan areas with highest unemployment rates – March 2009.

El Centro, California	25.1%
Merced, California	20.4%
Yuba City, California	19.5%
Elkhart-Goshen, Indiana	18.8%
Visalia-Porterville, California	17.7%
Modesto, California	17.5%
Bend, Oregon	17%
Fresno, California	17%
Redding, California	16.8%
Hanford-Corcoran, California	16.7%

SOURCE: U.S. BUREAU OF LABOR STATISTICS

Economy at a Glance!

Abbas P. Grammy
Professor of Economics, CSUB

The Gross Domestic Product - the output of goods and services produced in the United States – declined for the third consecutive quarter. After falling 6.3 in the fourth quarter of 2008, the GDP plunged at an annual rate of 6.1 percent in the first quarter of 2009, according to advance estimates released by the Bureau of Economic Analysis. This decline reflected negative contributions from exports, private inventory investment, equipment and software, nonresidential structures, and residential fixed investment. These negative effects were partly offset by a positive contribution from personal consumption expenditures.

The Index of Leading Economic Indicators – a measure of future economic activity – continued its falling trend. The index fell to 98.4 from 99.4, expecting the recession to continue over the next three to six months. For the seventh consecutive quarter, the rate of unemployment increased. It climbed to 8.1 from 6.9 percent. In the meantime, the general level of prices continued its falling trend. The cost of living decreased at a rate of 2.3 percent and the cost of producing descended at a sharp rate of 9.2 percent. The cost of employment increased at a slow annual rate of 1.2 percent.

In California, the unemployment rate climbed 2.3 percent to reach 10.6 percent. The state's economy added 40,600 members to its workforce. In the meantime, the state lost 386,800 jobs and had 427,300 more unemployed workers. While the farm labor market gained 1,100 jobs, non-farm industries cut 254,500 paid positions. The industries of construction, manufacturing, wholesale and retail trade, transportation and warehousing, information, finance and insurance, real estate and rental services, professional, scientific and technical services, administrative support and waste management, leisure and hospitality, and local government cut jobs. In contrast, the industries of educational services, health-care and social assistance, and state and local governments added jobs.

In Kern County, households became slightly more pessimistic about employment and financial conditions of their families and relatives as the *Consumer Sentiment Index* fell one point to 73. In contrast, Kern County businesses became less pessimistic about their employment and financial conditions as the *Business Outlook Index* rose 2 points to reach 92.

In the meantime, the county's economy declined at an annual rate of 3.6 percent. Kern's economy generated $15.43 billion in personal income, $140 million less than the previous quarter. Such a sharp economic decline caused personal income per worker to fall $300, reaching $41,300.

Kern County's labor market conditions continued to deteriorate. The county's workforce declined by 1,100 members. In the meantime, 6,200 more workers lost jobs and 5,100 more collected unemployment benefits. The loss of 6,200 farm jobs and 1,500 nonfarm jobs was partly offset by the gain of 1,500 informal jobs (self-employed workers and those working outside the county). A wide range of nonfarm industries cut jobs including construction, manufacturing, retail trade, information, real estate, professional and business services, leisure and hospitality, and local government.

The rate of unemployment climbed to 11.6 from 10.2 percent. Still below the county average, the rate of unemployment averaged 10.4 percent in Bakersfield, 8.5 percent in Ridgecrest, and 10 percent in Tehachapi.

Kern County's housing market fell into a deeper recession as housing prices plunged. The median sales price for all residential units depreciated $29,500 (or 18.8 percent) from $156,500 to $127,000. In Bakersfield, the median housing price plummeted $28,800 (or 18.2 percent) to $129,500 from $158,300. Depreciation in prices caused housing affordability to rise from 24.2 to 29.1 percent. The number of homes sold declined from 2,921 to 2,900 in Kern County, but rose from 2,202 to 2,239 in Bakersfield. The number of building permits issued for the construction of

(Continued on page 10)

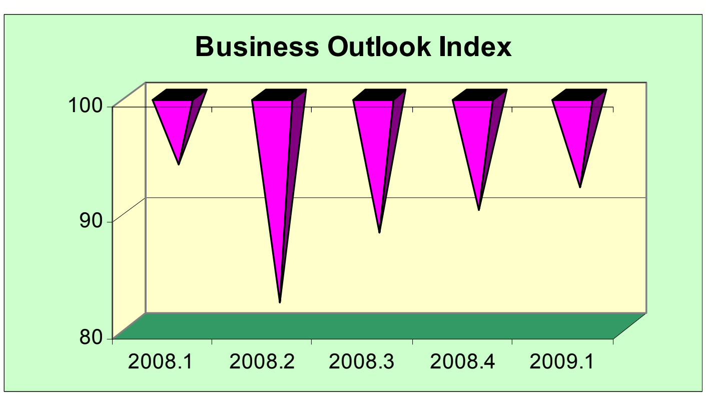
KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

Data from our recent survey indicate that Kern County businesses have become less pessimistic about local economic conditions. In the first quarter (January through March) of 2009, the *Business Outlook Index* improved slightly. The index stood at 92 compared to 90 in the previous quarter and 94 four quarters ago. Although managers are concerned about employment and general business conditions, they are less worried than the previous quarter.

Kern County's *Business Outlook Index* is compiled from telephone surveys administered to a random sample of local business managers listed in various telephone directories. Index values above 100 indicate optimism, while values below 100 suggest pessimism. The intent of the survey is to help business managers make more informed decisions given local economic trends. Survey results also enable investors to assess the potential for local economic growth based on the degree of business confidence.

To make an in-depth analysis of business confidence, we disaggregated the *Business Outlook Index* into two subindexes relating to recent and future business perceptions. The *Current Conditions Index* climbed 2 percentage points to arrive at 91. Likewise, the *Future Conditions Index* gained 2 percentage points to reach 93. Although business managers are still worried about current and future economic conditions, they are less pessimistic than the previous quarter.



Employment Outlook:
Seventy-seven percent of interviewees reported that the number of jobs in their companies stayed constant this quarter, but 11 percent said more jobs were available in their companies and 13 percent reported reduced employment.

Likewise, 73 percent perceived that the number of jobs would stay constant next quarter, whereas 12 percent expected their companies to hire more workers. The remaining 15 percent anticipated a smaller workforce.

Financial Outlook:
Sixty-four percent of survey respondents reported that the financial conditions (sales and profits) of their companies were constant this quarter, whereas 13 percent indicated increased profits and sales and 20 percent stated lower profits and sales.

Similarly, 68 percent expected financial conditions of their companies to remain constant next quarter. However, 7 percent anticipated increased sales and profits and 19 percent predicted lower sales and profits.

Industry Outlook:
Seventy-nine percent perceived that the employment and general business conditions of their industries remained the same as the previous quarter, but 12 percent felt these conditions improved and 19 percent felt crumbling business conditions.

Sixty-six percent anticipated that the employment and general business conditions of their industries would be

	Current Quarter	Previous Quarter	Four Quarters Ago
Index of Business Outlook	**92**	**90**	**94**
Index of Current Conditions	91	89	93
Index of Future Conditions	93	91	95

(Continued on page 5)

Bakersfield Consumer Sentiment Survey

Mark Evans
Associate Dean, School of Business and
Public Administration
Professor of Economics, CSUB

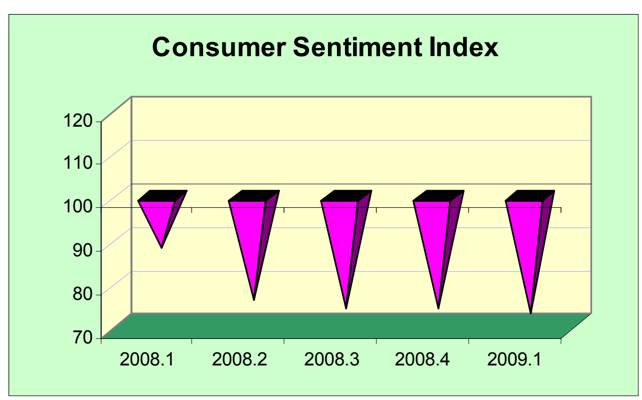
Bakersfield's Index of Consumer Sentiment decreased by one point to 73 in the first quarter of 2009. CSUB began compiling the local index in 1999 to help local businesses compare national and local trends and provide insight into whether a Bakersfield company's sales trajectory reflects industry trends or shifts in market share. The Bakersfield index was a leading indicator of the current recession. The local index peaked at 125 in the first quarter of 2007, while the National Bureau of Economic Research officially timed the recession as beginning in December 2007. The Bakersfield index declined in 2007 from 125 to 111 and plunged further to 76 by the second quarter of 2008. The index has not declined markedly since mid-2008, but it has been mired at historically low levels.

Although the Bakersfield index is similar to the University of Michigan's national index of consumer sentiment, the two cannot be directly compared. They have different base years and are tabulated from different questions using different formulas. Like the Bakersfield index, the University of Michigan's national index remained essentially unchanged in the first quarter at an historically low level.

The Bakersfield index is disaggregated into sub-indexes reflecting financial outcomes over the previous 12 months and expectations for the coming year. Although the composite index changed by just one point, there were larger offsetting movements in the two sub-indexes. The sub-index measuring recent trends increased from the previous quarter, while the sub-index reflecting expectations for the coming year declined by a similar amount.

The sub-index measuring recent trends increased from a historically low 62 in the fourth quarter of 2008 to 75 in the first quarter. The percent of respondents reporting that their recent spending on discretionary items was "more than usual" increased from a nearly nonexistent one percent in the fourth quarter to a still-miniscule seven percent in the first quarter; those reporting they spent less than usual decreased from 31 to 26 percent. The percent of households indicating they were better off than one year ago increased from three percent to five percent, while the percent indicating they were worse off decreased from more than one-in-three to about one-in-four. The percent indicating their financial condition did not change increased from 61 to 69 percent. Households reported a similar modest improvement in the financial condition of their acquaintances in Kern County.

The sub-index reflecting expectations for the coming year declined from 87 to 72. Less than one-in-five households thought their financial situation would improve in the coming year, while one-in-four were optimistic in the previous quarter. Whereas almost one-half the respondents indicated their local acquaintances were optimistic about financial improvement in the fourth quarter, less than one-in-four indicated their local friends and relatives were optimistic in the most recent quarter. However, people are slightly less leery about using savings or incurring debt to make a major purchase. While just 10 percent of the households think this is a safe time to make a major purchase that will draw down savings or incur debt, this is twice the five percent response rate of the previous quarter. About one-in-three households view this as a risky time to make a major purchase, less than the 45 percent who were bearish in the previous quarter.



(Continued on page 5)

Consumer Sentiment *(Continued from page 4)*

Table 1: Index Values			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	73	74	88
Sub-index: Current Conditions	75	62	79
Sub-index: Future Expectations	72	87	96

Table 2: Recent Buying and Financial Trends			
	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment).	7 %	67 %	26 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	5 %	69 %	26 %
How your acquaintances in Kern County are doing financially compared to one year ago.	3 %	59 %	38 %

Table 3: Future Expectations			
	Better or more stable	About the same	Worse or more risky
The most likely financial situation of your family one year from now	18 %	43 %	39 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	23 %	15 %	62 %
	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?	10 %	56 %	34 %

Business Outlook *(Continued from page 3)*

unchanged next quarter. However, 9 percent expected progress and 25 percent felt otherwise.

Economic Outlook:
When asked about Kern County's economy, 62 percent of interviewees perceived no improvement this quarter. Nevertheless, 14 percent felt conditions improved and 24 percent said conditions worsened.

Likewise, 63 percent felt that economic conditions would be unchanged next quarter. However, 16 percent anticipated for the economy to get better and 21 percent felt conditions are likely to get worse.

Factors Affecting Business Outlook:
We asked business managers to identify factors that have affected employment and financial conditions of their companies. They felt several factors brightened the business outlook:

- Stimulus and recovery plans of the new president
- Lower fuel costs and interest rates
- Improved international agribusiness

However, survey respondents expressed the belief that several factors darkened the business outlook:

- Low consumer confidence and insufficient household spending
- More business closures and lay-offs
- Continued recession in the housing market

THE CEO PROFILE!

Introduction

Richard Chapman was appointed President and CEO of the Kern Economic Development Corporation (KEDC) in November 2006. Mr. Chapman's previous positions included Executive Director of the Buckeye (Arizona) Valley Development, Inc., and Vice President for the Economic Development Council of Seattle and King County. He has also held a research position with Prudential Securities. Mr. Chapman holds a Bachelor's degree in Finance from Georgetown University and a Masters of Business Administration in International Marketing from American University. He hails from Pinehurst, North Carolina, "The Golf Capital of the World."

Interview

What is the mission of KEDC?

KEDC is dedicated to ensuring a diverse and strong economic climate for all Kern County businesses. KEDC accomplishes this mission through a cluster-based client services program focused on business retention, expansion and recruitment activities.

How does KEDC go about business relocation to Kern County?

KEDC serves an ombudsman role with interested companies by delivering on the "Kern County brand":

- Part of the Southern California region
- 4-hour accessibility to 90 percent of the State's population centers and the area's freight mobility corridors
- Relative affordability of the County for businesses and families
- Recession-proof aspects of the region's economy, especially in the agriculture and energy industries
- Opportunities for real estate investors/developers to develop new inventory in an extremely tight market
- Pro-growth aspects

How does KEDC go about business retention in Kern County?

Since, local businesses represent over 85 percent of new jobs, KEDC has implemented a Business Retention and Expansion strategy. KEDC provides permitting, financing, sitting and workforce development assistance to these companies. In addition, KEDC staff visits on-site with over 100 targeted cluster companies throughout Kern County. The targeted industrial clusters are:

1. Value-added Agriculture
2. Energy and Chemicals
3. Transportation, Logistics, and Warehousing
4. Business and Professional Services
5. Tourism, Recreation, and Entertainment
6. Health Care Services and Medical Technologies
7. Aerospace and Defense

What are some of the success stories since your tenure at KEDC?

KEDC's success is measured by 27 performance indicators gauging client successes in areas ranging from capital investment, wage income, tax revenue, and square footage absorbed. Some of our recent success stories are

- KEDC being designated the steward organization of Kern County's Economic Strategy
- Successful recruitment efforts of Railex (a 300-employee agricultural distribution facility in Delano and Famous Footwear (a 350,000 square feet logistics facility at Tejon Industrial Complex)
- Development of three industrial parks (three million sq. ft. in metro Bakersfield) and a 600,000SF spec building at Tejon Industrial Complex
- Lead role in the East Kern Economic Alliance, a coalition of cities and CDPs throughout east Kern County
- Media relations strategy responsible for a six-fold increase in KEDC-cited regional and nation news impressions

How do you see the outlook of economic development in Kern County?

Very positive! Despite difficult state-wide and national economic times, Kern County has recently been honored with a bevy of "best in show" awards that KEDC excitedly has used to market to our external corporate clients, developers, and site selection firms. These awards have tended to support the recent diversification of our local economy beyond oil and agriculture and debunk overall preconceptions about Kern County's economic infrastructure. Our new industry portfolio has helped illuminate the fact that the County is home to burgeoning sectors such as logistics, aerospace and healthcare. Furthermore, Kern is not only emerging as an economic power of the Valley, but of the State as well.

PUBLIC RELATIONS FOR THE SMALL BUSINESS

DONNA SIMMONS
ASSOCIATE PROFESSOR OF COMMUNICATIONS, CSUB

Public relations is as important, if not more important, to small businesses as it is to large organizations. The challenge for many small businesses is how to plan and implement public relations without spending a lot of money. Below are six steps for building relationships and creating and maintaining a positive image and reputation among important publics, the heart of public relations.

Identify your publics

Employees, customers, and suppliers are the three most important publics for most small businesses. Each of these publics has a different relationship with the business, depending on what they expect from the business. Create a list of your publics and write out what the publics want from your business. Better yet, ask your publics what they expect from their relationship with the business.

Build excellent relationships with your publics

Excellent relationship-building requires that you create a dialogue between you and your publics. You listen, they listen, and by doing this, you not only build respect for each other, you build trust and loyalty. If a customer wants a change to a product or service, you listen, evaluate the suggestion, discuss with the customer whether it is practical from both the business's and the customer's perspectives. If you can make the change to satisfy the customer, you do. If not, you explain to the customer why not.

Regularly check to see if the "publics" of the company are happy and satisfied

Sending a newsletter to customers is good public relations, but it doesn't reveal customers' attitudes and what they really think about the business. Send a personal letter from the owner or manager to the most loyal and newer customers asking them to come in and talk to about their experiences with the company? Five to ten people would be appropriate. Set up a time to meet with them to find out about their experiences with the organization and the company's products and services. If the desire to meet you isn't enough incentive, offer them free products or services. This does not have to be a formal focus group. Create a culture and environment in the organization in which employees feel comfortable talking to owners and managers and making suggestions for the organization.

Leverage the unique, interesting, and commendable aspects of the business with its "publics"

As noted, many organizations send out newsletters to customers. While customers like "tips" about preparing their houses for the winter or a calendar that shows when to apply what to their lawns and gardens, don't forget to emphasize what sets the company apart. Feature the unique aspects of your business. Feature what you contribute to your community. Feature a customer, feature an employee (even in a newsletter to customers - this shows you value your employees), and feature a supplier. **One note of caution about putting information about people in newsletters**: privacy laws apply so always gets written permission from anyone you feature in a newsletter, and don't include private, personal details about a person.

Celebrate milestones

Don't just celebrate business milestones. Celebrate the milestones of employees, customers, suppliers and other publics. To do this, you will need to capture names, addresses, and permission to contact them and give out milestone information. This is done by providing customers and others with a form to complete that indicate they will be added to your mailing list and you intend to celebrate their milestones. **The same privacy issues apply as with newsletters**. Celebrate milestones through a newsletter or set aside a day for that customer such as "John Jones' Day." Write the customer a personal letter with congratulations on the milestone. Some managers believe to celebrate employees birthdays takes time away from them doing their jobs. The question to ask is, "Is an employee who is happy, helpful and positive with customers or an employee who does the minimum in customer service better for the business?"

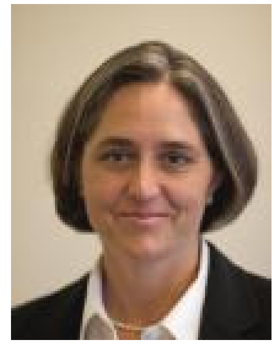
Think about how to create a positive image and reputation within the community

Can the business answer a community need? Can it support a charity? What can be done to keep people thinking

(Continued on page 10)

Agriculture: A Key Force in Kern County's Economic Engine

Karol Aure-Flynn
Executive Director, Food and Agribusiness Research Advisory, Rabobank International



Agriculture remains a major force in Kern County's economy. While the recession-proof sound bite "everybody's got to eat" has intuitive appeal, food and agriculture industries are not immune to the economic turmoil. The world economic crisis has significant consequences for U.S. agriculture and for regional production areas, particularly in areas highly dependent on exports. Macroeconomic conditions are one of many factors that determine sector profitability, a continual interplay of forces including weather, policy, and availability of crop inputs. Charting agriculture's role for Kern County in the short and long term will be a combination of the current recessionary environment and a number of ongoing regional issues.

The U.S. farm sector benefitted from strong national net farm income over the past several years and record farmland value gains. The USDA reported real net farm income in 2008 of $86.9 billion, slightly below the $89 billion posted in 2007. Farmers used profits to purchase farmland and pay off loans. Bankers responding to the Federal Reserve agricultural credit surveys indicate that strong farm incomes also prompted an increase in capital spending. In the fourth quarter of 2008, the Association of Equipment Manufacturers reported that sales of combine and four-wheel-drive tractors rose 22 percent annually.[1] The farm economy helped shield rural economies from some of the early economic contractions; employment losses were lowest in rural economies during most of 2008. However, precipitous decline of both the domestic and international economies are changing the environment for American agribusiness. The weakening of global demand, as a result of slowing global economic growth and the disruption of trade because of credit crisis and exchange rate fluctuation, has forced agriculture to take a cautious stand. Demand and export reductions, and energy developments, are impacting supply side.

In developed economies, consumers are not reducing the volume of their food intake as much as changing their purchasing decisions. Foodservice spending is affected when consumers trade down from mid to upscale establishments, to take-away and quick-service alternatives. The food retail segment is proving more resilient as consumers are preparing more meals at home. Income elasticity varies across sectors, with bakery, dairy and fresh produce appear to be the most resilient categories, as meat, seafood, process and alcoholic beverage purchase decisions are most impacted by domestic economizing. This said, the global slowdown in economic growth, trade interruptions, and the strength of the U.S. dollar has reduced demand for agricultural imports overseas. The USDA forecasts that U.S. agricultural exports could fall from $117 billion in 2008 to $96 billion in 2009. U.S. sectors, such as dairy and meat, which have experienced substantial export growth in recent years, are struggling with the reduction in exports, along with higher feed costs. A point of great uncertainty for the price competitiveness of U.S. ag exports is the value of the U.S. dollar relative to currencies of other major trading partners.

California's produced over $37 billion in farm gate value in 2008 and led the nation, versus second ranked Texas, which produces approximately $16 billion. California farm products consistently represent between 10 and13 percent of total U.S. exports. Kern County produces nearly 10 percent of California's agricultural value, at annual value approximately $3.5 billion. With $2.5 to $3 in related economic activity per farm gate value, farmers generate nearly $9.5 billion in additional activity for the region. Almonds, grapes, milk products, carrots and citrus top the list for Kern's agricultural production. Since these products are also export leaders, Kern County is particularly susceptible to changes in export movement (see the chart on next page).

Agribusiness is not only juggling the effects of the recession but a continuation of the regional crisis with water availability and conveyance. Long term, water is the single most important factor for the sustainability of California's and the southern Central Valley's agricultural

(Continued on page 9)

[1] Federal Reserve Bank of Kansas City, *Economic Review*, First Quarter, 2009

	CA share of 2007 U.S. Export Value	Kern County Rank in Production, CA
Almonds	100.0%	2
Grapes	99.2%	2
Dairy	31.0%	5
Carrots	76.0%	n/a
Citrus		
Oranges	51.0%	2
Lemons	91.0%	4
Grapefruit	23.0%	3
Source: CDFA		

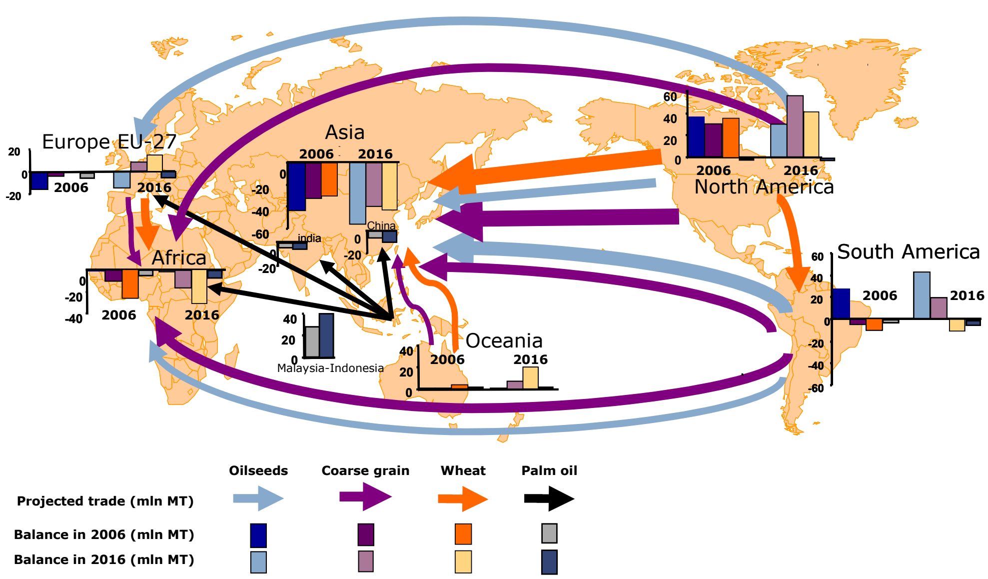
predominance. The obvious trend is that water costs will continue to increase. Both by availability, and by price, water costs will continue to drive innovation in water efficiency and necessitate higher value products. This ongoing issue has inspired some to say that agriculture “may be recession proof, but can it be water proof?”

Short term, the impact of global economic crisis and recession is a serious consideration for Kern county agribusiness, just as it is for the rest of U.S. agriculture. Kern County agribusiness is particularly exposed to the downside risk to agricultural exports, which will see recovery as macroeconomic indicators improve and exchange rates realign. Meanwhile, ongoing issues such as affordable water access are keeping agribusiness owners and managers up at night.

As these issues play out, and global economic recovery begins to take hold, there will be a return in emphasis to the long term trends of improving diet and increasing food expenditures particularly from emerging economies. The IMF projects that emerging and developing countries will recover to an annual GDP growth of approximately 7 percent by mid 2010. Long term, the GDP growth and urbanization in emerging economies continue to drive increasing global grain and meat demand, as consumers in these countries change their diets (see the chart below).

While the current recessionary turmoil has captured our attention, the long term trends of changing global diet, increasing agricultural trade, and constraints on agricultural resources of land and water remain. This above chart displays these trends for grains and oilseed trade. This structural increase in basic food demand is also accompanied by increasing global demand for higher value dairy, nuts, fruits and vegetables. If agriculture can successfully navigate California’s water issues, the future looks bright for agriculture’s continued key role in Kern County’s economic engine, despite the current economic downturn.

Grains and Oilseed Trade Flows by 2016



Rabobank International, Food and Agribusiness Research and Advisory 2009

At a Glance (Continued from page 2)

new privately-owned dwelling units dropped from 326 to 297. The county's foreclosure activity accelerated at a rapid rate of 76.1 percent from 2,566 to 4,238. As a result, 1,672 more homeowners received notices of loan default from their mortgage bankers.

In commodity markets, the average price of San Joaquin crude oil dropped $10 to reach $35.08 per barrel. Similarly, the average price of regular gasoline sold in the Bakersfield metropolitan area decreased 21¢ to arrive at $2.21 per gallon. The unit price of California's Class III milk edged down $5.51 to attain $10.44. The index of prices farmers received for their outputs fell 12 points to reach 130, and the index of prices farmers paid for their inputs dropped 8 points to arrive at 174. However, the parity between output prices farmers received and input prices farmers paid remained constant at 78.

The composite price index (2008.1 = 100) of the top five locally traded stocks declined 7.7 points from 78.1 to 70.4. Relative to four quarters ago, the composite price index of stocks for these *market-movers* edged 29.6 percent lower. Average stock prices fell for Chevron Corporation U.S., San Joaquin Bank, and Tejon Ranch Company, but increased for Granite Construction and Occidental Petroleum Corporation.

Public Relations (Continued from page 7)

positively when they hear the company's name? Are employees treated well? Are they cogs in the wheel and easily replaced or are they valuable assets to the success of the business? How do you treat your suppliers? Manage the business by the golden rule.

Many small businesses owners and managers already follow these steps, but may not realize they are doing public relations. Those who do not do these things can begin. These steps build relationships that create a positive image and reputation for the business - excellent public relations.

Book Review (Continued from page 14)

others. In addition, Martinez references the writings of Adam Smith, Jeremy Bentham, Thorstein Veblen, John Kenneth Galbraith, and of course, Hayek and Freidman. The historical foundations of this book allow one to clearly see the role the state has played in the development of modern capitalism.

Returning to the 1930s, much has been made of the fact that Friedman's study of the Great Depression concludes with the argument that this crisis was caused by a failure of government policy. According to Freidman, a simple recession became an economic catastrophe when the federal government allowed 33 percent of all banks to fail in the United States. It is important to note, though, that Freidman was not calling for less government intervention. No, Freidman actually believed that the Great Depression could have been averted by more aggressive government action. Specifically, Friedman himself believed the government should have done more to save the banks and expand the money supply.

Over time, though, this aspect of Freidman's argument was lost. All that remained was the willingness to blame the government. This focus on blaming the government for societal problems led to a call for de-regulation in the 1980s. And this in turn led to the market excesses of the last twenty years.

Once again, we find ourselves in the same position seen eight decades ago. This time, though, decision-makers are actually following the original advice of Friedman. Banks are being bailed out and the money supply is being expanded. In addition, we are following the advice of John Maynard Keynes and employing government spending to return the economy to full employment.

In sum, the effects of our current crisis are being mitigated by the interventions of the state. As we learn from "The Myth of the Free Market", the state has often played such a role. Furthermore – as Martinez forcefully argues – capitalism does not function well when government fails in its function.

One suspects that despite the current state of the economy, true believers in the "Reagan Revolution" will persist in their belief that "government is the problem." For these people especially I recommend "The Myth of the Free Market." Mark Martinez – via clear writing and a wealth of historical evidence – clearly demonstrates that the market mechanism without government intervention does not produce the outcomes society desires. Recent events do nothing but confirm this hypothesis. Now read this book and see why government can indeed be a solution to our problems.

Analyzing Kern County's Housing Market

Ashley Magee[1]
Environmental Resource Management Student, CSUB

Introduction

The behavior of Kern County's housing market has captured the fascination of many people. Few counties around the country experienced the skyrocketing prices followed by the freefall of prices quite like Kern County. To gain a better understanding of Kern County's housing crisis, this article will give an analysis of a statistical method[2] to model the county's housing market's factors. This model attempts to explain the relationships among the monthly data from January of 1990 to March of 2009 for default notices issued to Kern County homeowners by their mortgage lenders, local nonfarm employment, and the One-Year Treasury Constant Maturity Rate (hereafter, one-year T-bill). As shown below, while stable during 1990-2005, the number of default notices issued to local homeowners skyrocketed from about 250 in January 2006 to over 2,000 in March 2009. Hence, the main purpose of this research is to analyze how default notices in the past twenty years are explained by the other two variables.

Reasons for Variables Chosen

While constructing this model, about ten different variables were considered including Kern County's unemployment rate, residential building permits, and the thirty-year conventional mortgage rate; however, most of these variables led to either a poor fitting model or nonsensical relationships. After many trials, the best model for the monthly data from January of 1990 to March of 2009 only contained two variables other than default notices for Kern County.

As mentioned before, these two variables are the monthly numbers for nonfarm workers in Kern County and the one-year T-bill. Default notices have been on the rise ever since sub-prime adjustable mortgage rates became popular several years ago. This adjustable interest rate is often based on indices, such as the one-year T-bill. Therefore, there is a logical reason for this to be part of the model. One can also draw a logical relationship between nonfarm workers and default notices since less nonfarm jobs should indicate less people being able to make mortgage payments.

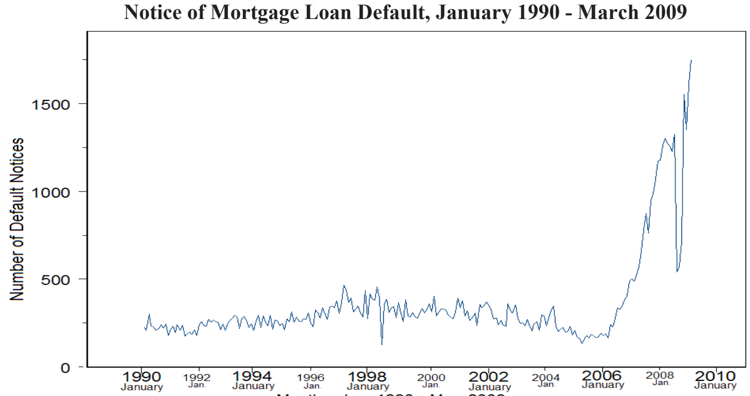
Anomaly in Fall of 2008

The number of default notices for Kern County in September, October, and November of 2008 did not accurately depict the condition of Kern County's housing crisis. This is due to new laws on foreclosures in California, especially Civil Code 2923.5 (b), which stated that:

Notices of Default pursuant to Civil Code 2924 must also include a declaration from the mortgagee, beneficiary, or authorized agent which states that it has contacted the borrower, tried with due diligence to contact the borrower, or that the borrower has surrendered the property to the mortgagee, trustee, beneficiary, or authorized agent.

(Continued on page 13)

Notice of Mortgage Loan Default, January 1990 - March 2009



[1] Supervised by Dr. Aaron Hegde, Assistant Professor of Economics and Director of Environmental Resource Management Program

[2] Cointegrated Vector Autoregressive (VAR)

Reflecting on National Economic Conditions

Ole Hertzog[1]
Economics and Mathematics Student, CSUB

The U.S. economy is in the midst of a structural depression. We are simply seeing the simultaneous collapse of unsustainable economic relationships. The end result will be a period of prolonged stagnation, as the global nature of the crisis precludes an export-orientated recovery, and a drastically atrophied capital base will impede domestic fiscal stimulus programs.

That said, we will immediately suggest that monetary policy must cede dominance to fiscal policy at this time. It is precisely a monetarist mentality which hindered the more efficacious containment of the subprime crisis in 2007 and early 2008. Ample historical evidence definitively contends that fiscal stimulus is the primary means whereby ultimate recovery can be achieved. That monetary policy can still provide a framework, operating as a facilitator of fiscal stimulus both now and in the future; as we have seen only the first of several stimulus bills, goes without saying. The severity of the economic contraction, however, even in the face of unprecedented expansionary monetary policy, suggests that there are factors that said policy cannot manipulate.

Monetary policy can no longer affect appreciable expansion in aggregate demand. People are uncertain, and are saving, drastically cutting back consumption; similarly, firms are hesitant to expand operations or invest. Banks are unwilling to lend, not only because there are few good credit risks. After all, the largest insurance company in the world was in effect nationalized last year, and there are no more investment banks in the U.S., largely a result of their being forced to contract balance sheets to reflect their drastically reduced ratio of assets to debt. Hence, the money multiplier has registered a steep decline; coupled with investors' massive liquidation of securities, bonds, and other assets, this has set in motion a self-reinforcing deflationary spiral, one of several adverse feedback loops now in operation.

The Federal Reserve System has acted commendably in attempting to counteract this deflation and contain the crisis; it has incepted several special lending facilities to provision liquidity to banks, and directly to consumers and small businesses; loaned U.S. Treasuries to banks in exchange for toxic assets; lowered the federal funds rate to near zero percent; and coordinated with central banks around the world, establishing currency swaps. In spite of these unprecedented moves, the massive expansion of the monetary base, and the tremendous infusions of liquidity into the financial system, the economy still appears to be sliding inexorably downward.

While it is certainly not within the statutory authority of the Federal Reserve System to nationalize the banking system, this should be its policy recommendation, especially insofar as it reflects a disinterested technocracy recognizing the limits of its tools.

The Federal Reserve System and Office of the Comptroller of the Currency have begun an extensive "stress-testing" of the nation's major banks. It is certain that a review of their books will show a majority of the nation's banks are bankrupt. Stress-testing will ensure nationalization becomes politically palatable, particularly after the passage of and promise that the TARP bill would rectify the nation's banking ills, and the public disenchantment it has since inspired.

The uncertainty engendered by the comparative failure of the Troubled Asset Relief Program bill, Federal Reserve Actions, and the in-effect nationalization of AIG, Fannie Mae, and Freddie Mac, has only succeeded in largely foiling the Federal Reserve's attempts at managing expectations. It can and should continue to maintain clear channels of communication with the public, do its best to inculcate inflationary expectations, and stand by as a lender of last resort, the claims of alternative transmission mechanisms of monetary policy notwithstanding.

Fiscal policy must now be used to increase aggregate demand and build the foundation for private sector recovery, as it was over seventy years ago. As mentioned, monetary policy must operate in tandem, facilitating the

(Continued on page 13)

[1]This presentation was a part of the Federal Reserve System Simulation held at CSUB on March 5, 2009. Teams of economics students role-played the Board of Governors in the making of monetary policy.

Reflecting (Continued from page 12)

demands of fiscal policy, by maintaining low interest rates and purchasing U.S. bond issuances as Asian demand retreats.

At the same time, we strongly suggest that the Federal Reserve System cannot operate as a de facto "bad bank," taking on virtually worthless assets in exchange for valuable U.S. Securities. Indeed, one independent analysis of the Federal Reserve's balance sheets suggests that the Fed is so highly leveraged that even a slight devaluation of its assets would make it functionally insolvent, requiring an emergency dispensation from the Department of Treasury.

This would not bode well for expectations, particularly at a time when the federal deficit will be in excess of 10 percent of the GDP, when the primary purchasers of our debt are themselves restrained by the global economic contraction, and most especially at a time when the dollar is the world's reserve currency. Still, there are few alternatives. The euro has depreciated markedly since last year, and we may indeed be looking at the inevitable dissolution of the European Union - European banks were even more highly leveraged than American banks. The restraints on budget deficits, the risk spread between German and French bond issuances, and that of other, weaker EU members, does not portend well for that trade zone. Neither the yen nor the yuan maintain the near universal acceptance of the dollar; the Swiss franc has succumbed to steady, albeit slow, devaluation.

All of this speaks of a need for a coordinated, global initiative. Until such time that institutions both capable and legitimized toward those ends are incepted, the Federal Reserve, the U.S. dollar, and U.S. debt remain the linchpin of the global financial system. Our recovery and a measure of stability in global markets are predicated on that. Thus, we need to act as prudent stewards, and a bad bank in the spirit and the synthesized essence of the Reconstruction Finance Corporation of the 1930s and the Resolution Trust Corporation of 1980s, must be chartered by Congress as quickly as possible. In so doing, the weight on the financial system will be removed, the banking system will be recapitalized, lending will begin anew, and confidence will return slowly, but surely.

At that time, the Federal Reserve System must act quickly to *sterilize* or otherwise neutralize the so far massively expanded money supply, whether by raising reserve requirements or mandating purchases of Federal Reserve bonds, among other alternatives. It would be a shame should a deflationary depression be followed by a hyperinflationary one. Regardless, we are witnessing a dramatic shift in the global economic and political order, the end result of which cannot be predicted with any considerable degree of certainty.

Housing Market (Continued from page 11)

This new law initially caused a drop in the Fall of 2008; however, the foreclosure trend was followed by a dramatic jump in December of 2008. Because these months caused an aberration in the data set, these three months were removed from the data to create a more accurate model for the other 228 months.

Analysis of Results

As one would expect the relationships between default notices and the other two variables are unidirectional; in other words the one-year T-bill and the number of nonfarm workers can explain the number of default notices, but the number of default notices can neither explain the one-year T-bill nor the number of nonfarm workers. If the one-year T-bill were to increase by one percent per month, then the model predicts that in the following month default notices would increase by nearly 23 notices. This assertion is true only if the monthly number of nonfarm workers is constant. The explanatory variable of nonfarm workers can be analyzed in a similar way. Suppose the one-year T-bill is held constant, and the number of non farm workers increased by 1000 per month, then default notices would decrease by about 1.5 in the following month. The effect of the monthly number of nonfarm workers on the monthly number of default notices according to this model is rather more minimal than what one might anticipate. However, the relationship between the one-year T-bill and default notices shows that the number of default notices is more sensitive to a change in the interest rate than a change in employment.

Conclusion

This model uses three variables out of dozens that have affected Kern County's housing market in the last two decades. However, this model gives us a previously unseen glimpse of Kern County's housing market by showing how default notices relate to the one-year T-bill and employment in nonfarm industries.

Book Review

The Myth of the Free Market: The Role of the State in a Capitalist Economy By Mark A. Martinez.

Kumarian Press, 2009

Reviewed by: David Berri
Associate Professor of Economics, Southern Utah University

Much has been said about how our current crisis is the "worst since the Great Depression." Although our present economic problems certainly fall far short of what was experienced 80 years ago, much can be learned about how we view the current crisis by looking back at the 1930s.

At that time there were those who argued against employing market capitalism as the organizing principle for a nation's economy. After all, while the market based economies of the United States and Europe experienced horrendous rates of unemployment, the centrally planned system utilized by the Soviet Union provided full employment to its citizens. Furthermore, the Soviet Union's economy was actually growing in the 1930s.
Into this debate stepped Friedrich Hayek. In the "Road to Serfdom", Hayek demonstrated why a centrally planned system was doomed to failure. Hayek's arguments in favor of capitalism were further echoed in the writings of Milton Friedman, whose work eventually inspired the "Reagan Revolution" in American politics. It was Ronald Reagan who argued "government is not the solution to our problem; government is the problem." The choice Reagan presented was as follows: Either one could choose to solve problems via the free market. Or one could follow the example laid forth by communists and rely on the government. Given such a choice, the former is clearly preferred.

Within years of the "Reagan Revolution", the Soviet Union collapsed. Furthermore, most other centrally planned economies have turned to capitalism and the free market system. All of this suggests that Hayek, Friedman, and Reagan were correct. Free markets – not government – should always rule the day.

The choice between government and markets, though, is a false choice. In "The Myth of the Free Market", Mark Martinez argues convincingly that one cannot have market capitalism without government intervention. In fact, much of what we take for granted about capitalism was created and supported by government policies. And when government fails to perform its proper function, the free market system itself fails to function.

Martinez begins his argument with the story with a Montana rancher named Lynn Cornwell. Cornwell came to Washington in 2000 to argue that the estate tax needed to be repealed. After all, a family should not lose both a family member and the family business at the same time. What Cornwell failed to note in his argument was that (a) there are no examples of a family farm being lost to the estate tax and (b) Cornwell had received more than $400,000 in federal subsidies to support his farm. In other words, Cornwell was opposed to government intervention when it might harm his interests. But he was more than willing to support government intervention when the invisible hand of self-interest led him to that conclusion.

The Cornwell story is not an isolated case. As Martinez notes "the self-interest and greed" that Adam Smith embraced in the market do not magically check itself at the gates of the state. Rather, the "laws of justice" (the shifting of resources from one party to another) that Smith spoke about are broken so consistently that we cannot simply shrug and chalk it up to market aberrations." He goes on to add, "…market players – as the Lynn Cornwell case illustrates – often view the state as another vehicle to pursue their ends."

It is important to note – as Martinez emphasizes – that Cornwell's behavior is not some isolated incident. And this behavior is not something that has only manifested itself recently. The strength of Martinez's argument lies in his frequent appeal to historical evidence in making his case.

Throughout this book Martinez makes reference to the historical figures and events that have shaped the capitalism observed today. Along the way we meet Genghis Kahn, William of Orange, Alexander Hamilton, Thomas Jefferson, James Madison, Michel Chevalier, and many

(Continued on page 10)

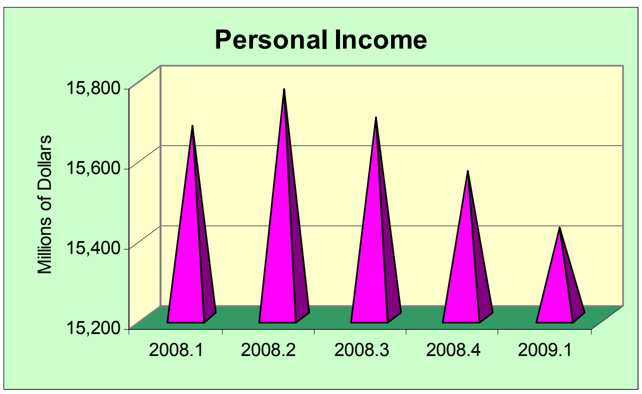
Tracking Kern's Economy

2009 First Quarter

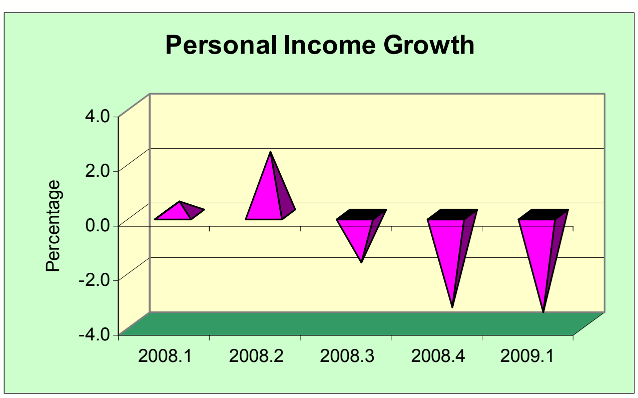
Abbas P. Grammy
Professor of Economics, CSUB

Economy

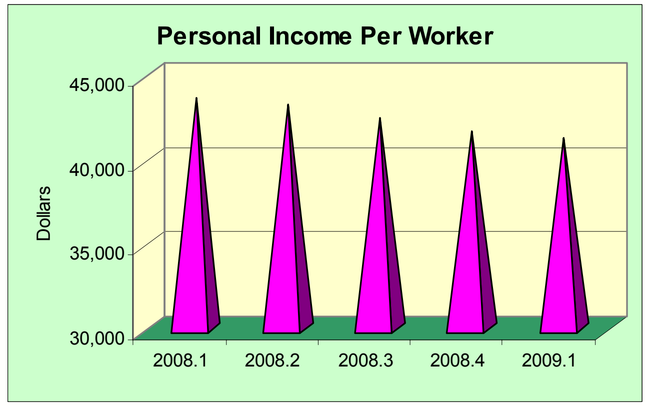
Personal Income - Kern County's personal income (in constant 1996 dollars) decreased from $15.57 billion in the fourth quarter of 2008 to $15.43 billion in the first quarter of 2009. The county's economy lost $140 million of income this quarter. Likewise, the county's personal income was $255 million less than that of the first quarter of 2008.



Growth of Personal Income - After falling 3.4 percent in the previous quarter, Kern's economy declined at an annual rate of 3.6 percent this quarter. Compared with four quarters ago, the rate of economic growth was 4.1 percent slower.



Personal Income Per Worker - Economic decline caused personal income per worker to fall $300 from $41,600 in the fourth quarter of 2008 to $41,300 in the first quarter of 2009. Personal income per worker was $2,370 less than that of four quarters ago.

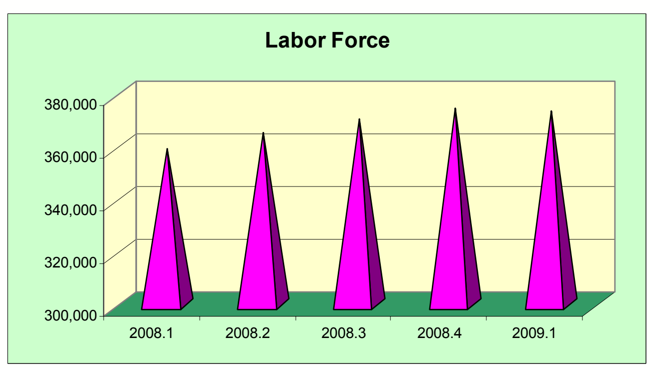


Labor Market

We have adjusted labor market data for seasonal variations and report the quarterly changes in major labor market indicators below:

Labor Force	Total Employment	Total Unemployment	Farm Employment	Nonfarm Employment	Private-sector Employment	Public-sector Employment
-1,100	-6,200	5,100	-6,200	-1,500	-1,500	0

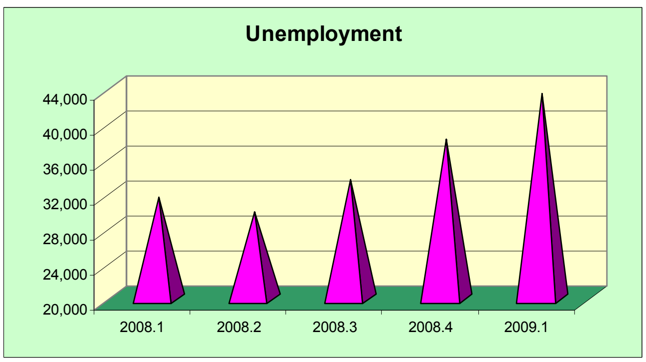
Labor Force - The civilian labor force decreased by 1,100 workers from 374,500 in the fourth quarter of 2008 to 373,400 in the first quarter of 2009. However, the labor force has increased by 14,310 workers since the first quarter of 2008.



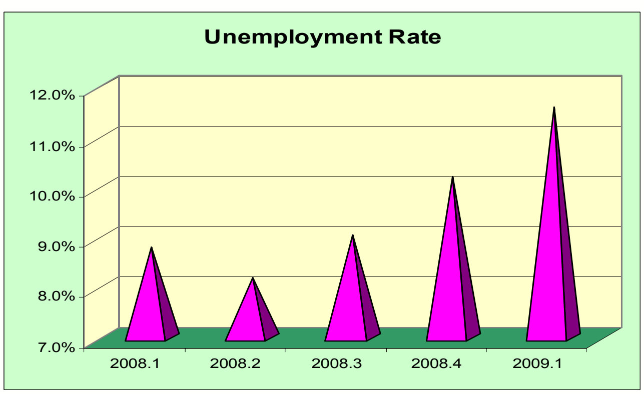
Employment - In the first quarter of 2009, Kern County's economy lost 6,200 jobs as total employment declined from 336,900 to 330,700. However, the county employed 3,190 more workers since the first quarter of last year.

(Continued on page 16)

Unemployment - The number of jobless workers increased by 5,100 as unemployment rose from 38,200 in the fourth quarter of 2008 to 43,300 the first quarter of 2009. Similarly, 11,720 more workers were unemployed this quarter than four quarters ago.



Unemployment Rate - The rate of unemployment climbed 1.4 percent from 10.2 percent in the fourth quarter of 2008 to 11.6 percent in the first quarter of 2009. Likewise, this quarter's unemployment rate was 2.8 percent higher than that of four quarters ago.



Using non-seasonally-adjusted data, the rate of unemployment varied considerably across cities. It ranged from 6.1 percent in Kernville to 36.6 percent in Arvin. In Bakersfield, the rate of unemployment was 10.4 percent.

Unemployment Rate of Cities

Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Kernville	6.1	Oildale	15.5
Lebec	6.6	Lake Isabella	17.6
Ridgecrest	8.5	Mojave	18.2
Tehachapi	10.0	Shafter	25.4
Inyokern	10.0	Lamont	25.5
Bakersfield	10.4	Wasco	26.3
California City	11.6	McFarland	29.2
Rosamond	12.1	Delano	35.8
Frazier Park	12.4	Arvin	36.6
Taft	14.4		

Note: City-level data are not adjusted for seasonality.

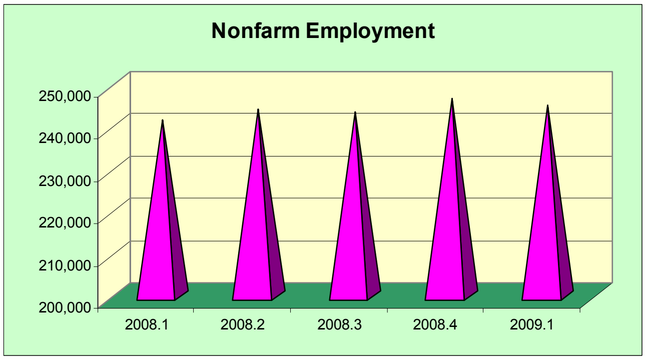
Farm Employment - In the first quarter of 2009, Kern County lost 6,200 farm jobs as employment decreased from 52,400 to 46,200. Likewise, the county's farm employment this quarter was 1,040 greater than that of four quarters ago.

Nonfarm Employment - Kern County lost 1,500 jobs in the market for nonfarm labor. The number of jobs in this market decreased from 246,600 in the fourth quarter of 2008 to 245,100 in the first quarter of 2009. However, nonfarm industries have added 3,500 jobs since the first quarter of 2008.

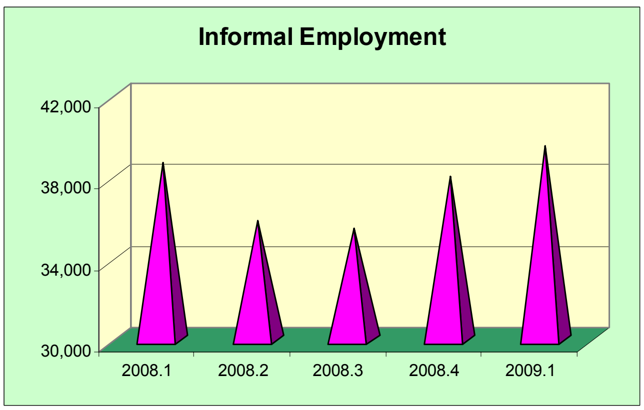
A wide range of industries cut jobs this quarter including construction, manufacturing, retail trade, information, real estate, professional and business services, leisure and hospitality, and local government.

(Continued on page 17)

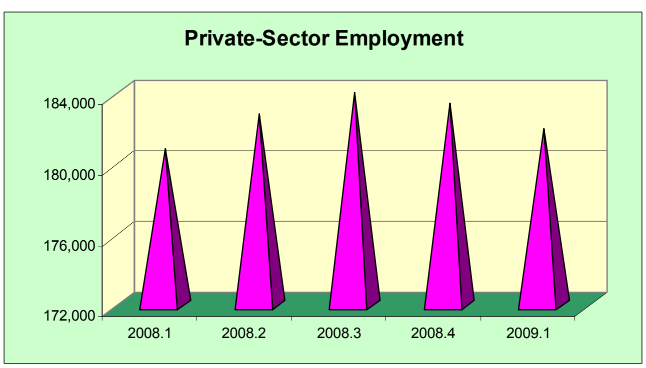
Tracking *(Continued from page 16)*



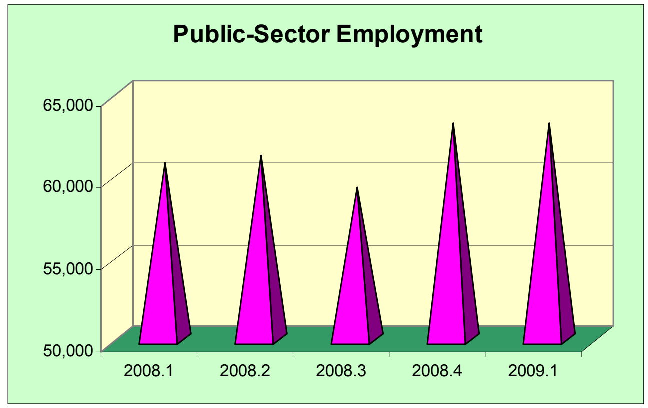
Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those who work outside their county of residence. In the first quarter of 2009, the number of workers engaged in this market increased by 1,500 from 38,010 to 39,510. Similarly, the informal labor market had 830 more jobs relative to the first quarter of last year.



Private-sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the first quarter of 2009, private companies lost 1,500 jobs as their employment fell from 183,400 to 181,900. However, the private sector offered 1,070 more jobs relative tofour quarters ago.

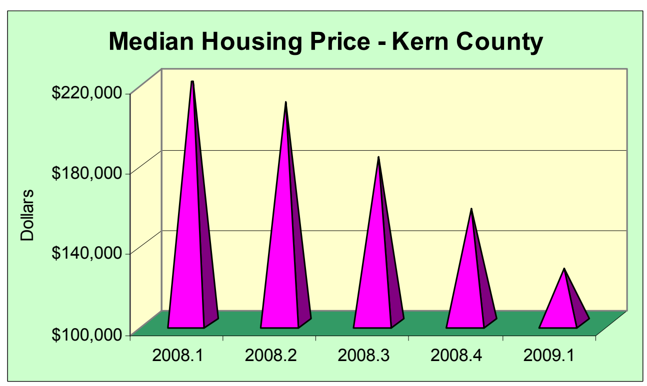


Public-sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the first quarter of 2009, public-sector employment remained constant at 63,200. Since the first quarter of last year, the public sector has added 2,430 jobs.



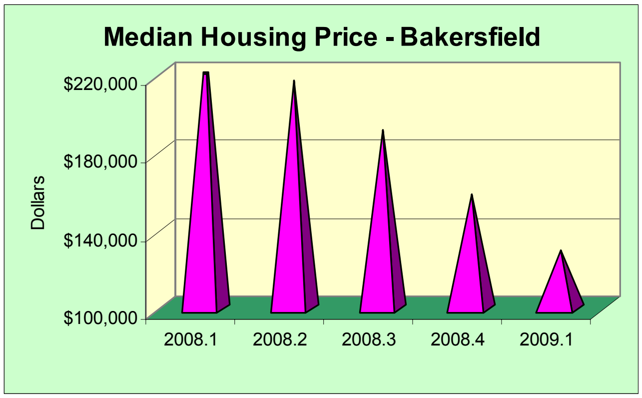
Housing Market

Housing Price - In the first quarter of 2009, Kern County's housing prices continued to fall. The median sales price for all residential units depreciated $29,500 (or 18.8 percent) from $156,500 to $127,000. The county's median housing price has plunged $97,800 (or 43.5 percent) since the first quarter of last year.



In Bakersfield, the median housing price depreciated $28,800 (or 18.2 percent) from $158,300 to $129,500. The city's median housing price has plunged $103,800 (or 44.5 percent) since the first quarter of 2008.

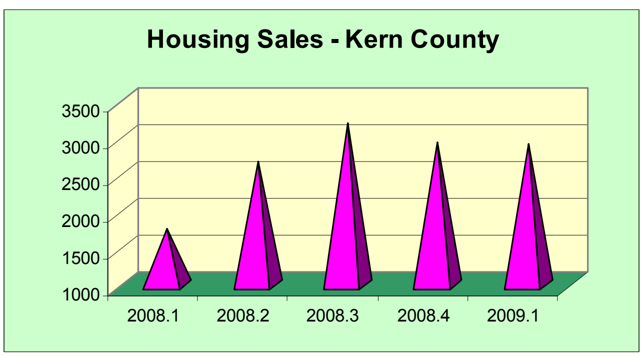
(Continued on page 18)



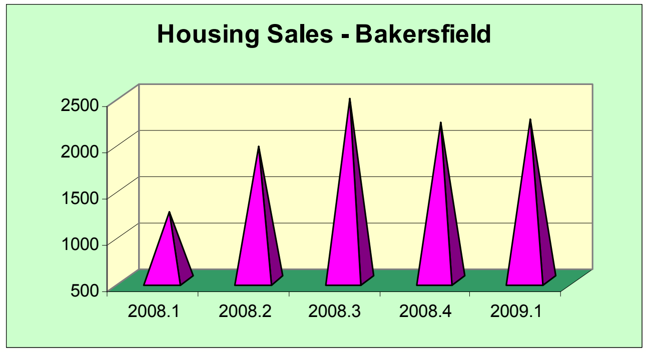
Housing price changes varied across the county. Among selected locations shown below, the median housing price depreciated in all areas. In particular, Bakersfield, Delano, Rosamond, and Tehachapi recorded depreciation rates in excess of $20,000.

Location	Median Price 2008.4	Median Price 2009.1	Median Price Change	Median Price Change
Kern County	$156,500	$127,000	-$29,500	-18.8%
Bakersfield	$158,300	$129,500	-$28,800	-18.2%
California City	$83,000	$69,000	-$14,000	-16.9%
Delano	$156,800	$118,500	-$38,300	-24.4%
Ridgecrest	$183,300	$174,300	-$9,000	-4.9%
Rosamond	$143,250	$118,700	-$24,550	-17.1%
Taft	$87,300	$69,100	-$18,200	-20.8%
Tehachapi	$206,700	$185,200	-$21,500	-10.4%

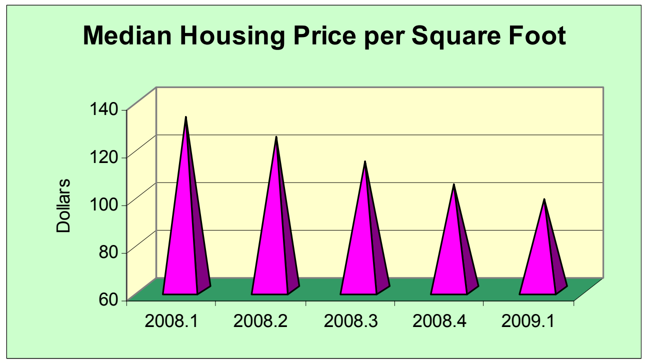
Housing Sales - In Kern County, the number of residential units sold declined from 2,921 in the fourth quarter of 2008 to 2,900 in the first quarter of 2009. However, the number of units sold this quarter was 1,151 more than that of four quarters ago.



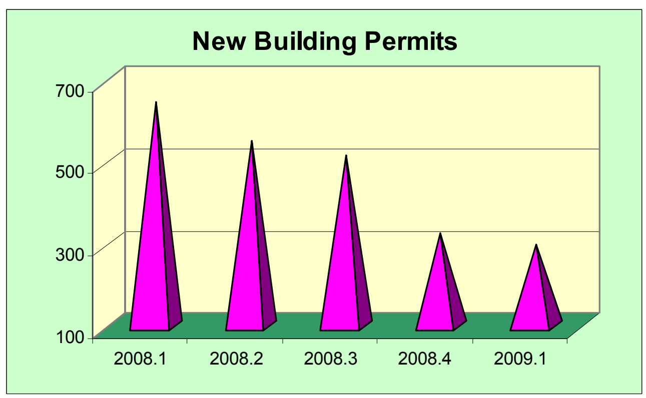
In Bakersfield, sales inclined by 37 units. The number of all residential units sold rose from 2,202 in the fourth quarter of 2008 to 2,239 in the first quarter of 2009. Since the first quarter of last year, sales have risen by 991 units.



Median Housing Price per Square Foot - The median sales price per square foot of housing area declined $6 from $104 in the fourth quarter of 2008 to $98 in the first quarter of 2009. Since the first quarter of last year, the median housing price per square foot has dropped $34.

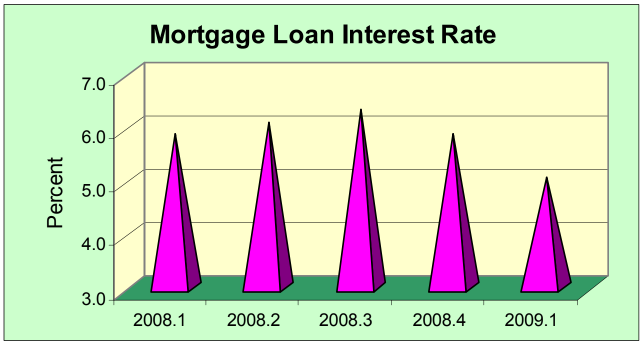


New Building Permits - In the first quarter of 2009, the number of building permits issued for the construction of new privately-owned dwelling units fell by 29 from 326 to 297. Relative to four quarters ago, 348 less building permits were issued this quarter.

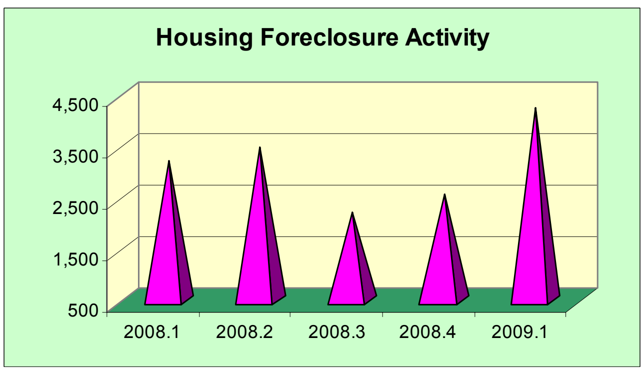


Mortgage Interest Rate - In the first quarter of 2009, the interest rate of thirty-year conventional mortgage loans decreased from 5.87 to 5.06 percent. Since the first quarter of last year, the mortgage loan interest rate has fallen 0.82 percent.

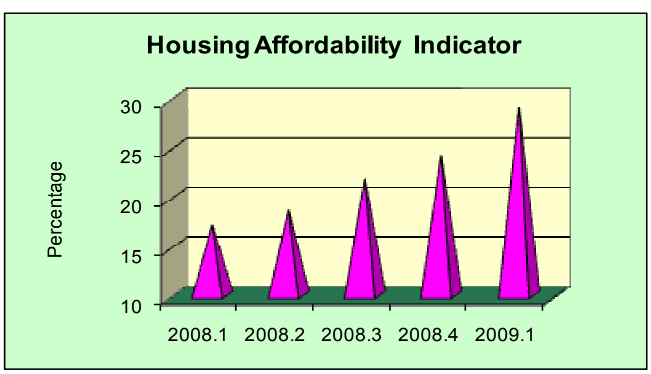
(Continued on page 19)



Housing Foreclosure Activity - In the first quarter of 2009, the county's foreclosure activity accelerated from 2,566 to 4,238. As a result, 1,672 (or 76.1 percent) more homeowners received notices of loan default from their mortgage bankers. Compared with four quarters ago, the number of default notices increased by 1,027 (or 39.0 percent).

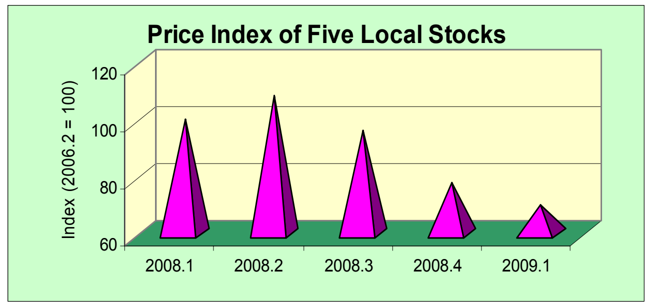


Housing Affordability - The housing affordability indicator improved from 24.2 percent in the fourth quarter of 2008 to 29.1 percent in the first quarter of 2009. Compared with four quarters ago, the affordability index gained 11.9 percent.

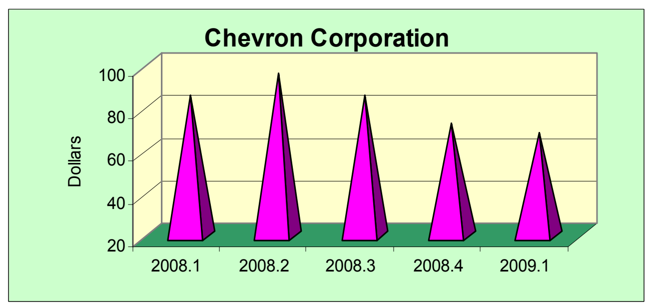


Stock Market

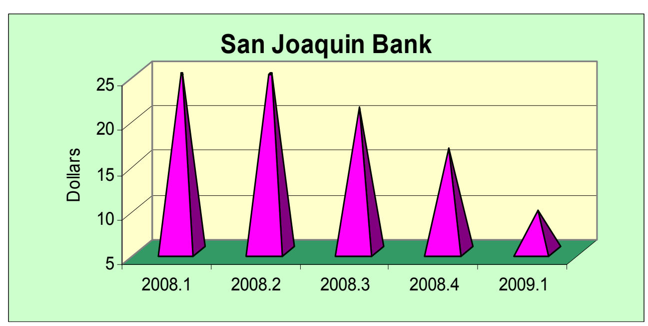
In the first quarter of 2009, the composite price index (2008.1= 100) of the top five locally traded stocks declined 7.7 points from 78.1 to 70.4. The index was 29.6 points lower than that of four quarters ago. These top five local *market-movers* are Chevron Corporation, San Joaquin Bank, Granite Construction, Occidental Petroleum Corporation, and Tejon Ranch Company.



Chevron Corporation US: CVX lost $4.17 (or 5.8 percent) per share as its price dropped from $72.16 in the fourth quarter of 2008 to $67.99 in the first quarter of 2009. Likewise, CVX has lost $17.51 (or 20.5 percent) since the first quarter of 2008.

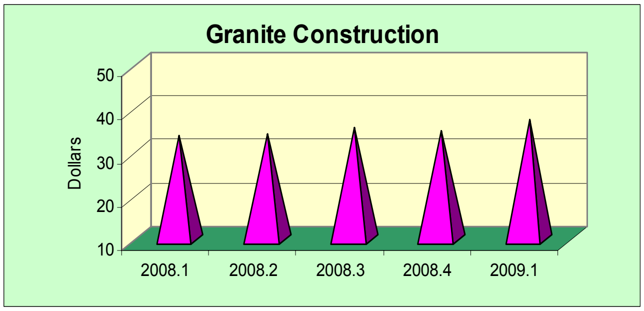


San Joaquin Bank: SJQU lost $7.01 (or 42.2 percent) per share as its price fell from $16.61 in the fourth quarter of 2008 to $9.60 in the first quarter of 2009. Similarly, SJQU has lost $16.59 (or 63.3 percent) since the first quarter of 2008.

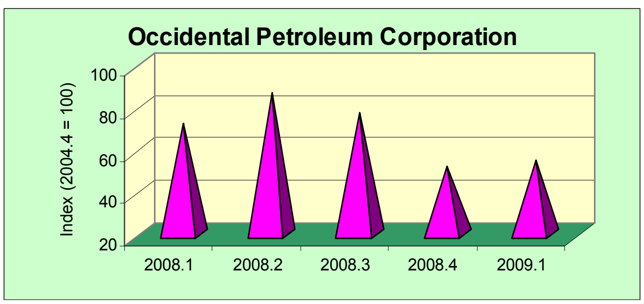


(Continued on page 20)

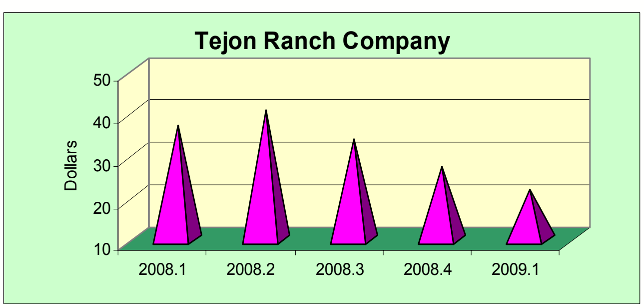
Granite Construction: GVA gained $2.53 (or 7.3 percent) per share in the first quarter of 2009 as its stock price jumped from $34.70 to $37.23 per share. GVA has risen $3.70 (or 11.0 percent) since the first quarter of 2008.



Occidental Petroleum Corporation: OXY gained $3.23 (or 6.2 percent) per share as its stock price rose from $51.82 in the fourth quarter of 2008 to $55.05 in the first quarter of 2009. However, OXY has gone down $17.35 (or 24.0 percent) since the first quarter of 2008.

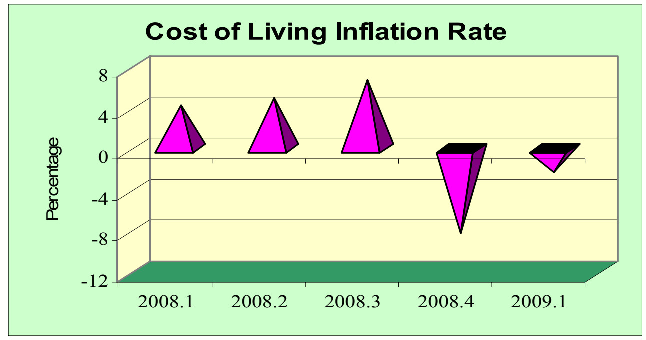


Tejon Ranch Company: TRC lost $5.33 (or 19.6 percent) per share as its stock value dropped from $27.18 in the fourth quarter of 2008 to $21.85 in the first quarter of 2009. Likewise, TRC was down $14.95 (or 40.6 percent) relative to the first quarter of 2008.

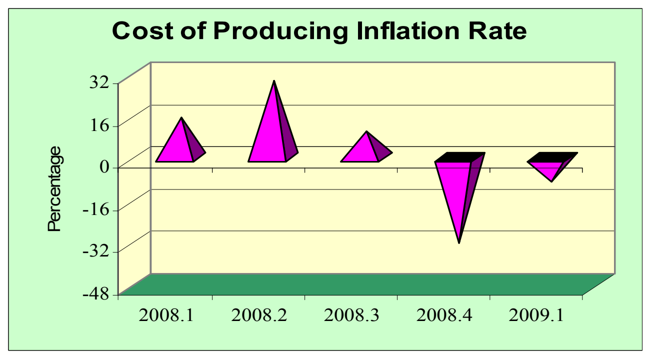


Commodity Prices

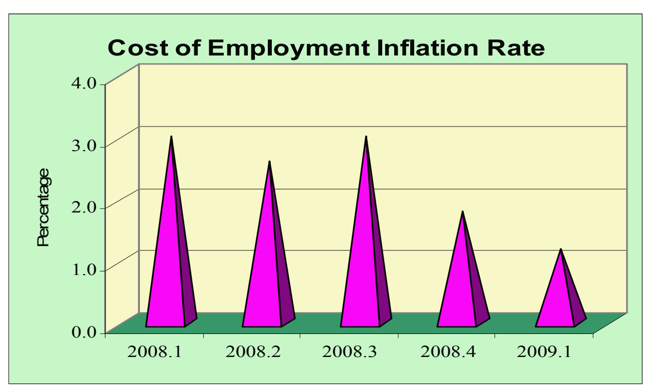
Cost of Living - The Consumer Price Index for all urban areas (1982-84 = 100) declined from 213.9 in the fourth quarter of 2008 to 212.6 in the first quarter of 2009. Inflation for cost of living decelerated at an annual rate of 2.3 percent. Over the previous four quarters, the cost of living inflation rate has fallen from 4.3 to -2.3 percent.



Cost of Producing – The Producer Price Index for all commodities (1996 =100) tumbled from 179.5 in the fourth quarter of 2008 to 175.3 in the first quarter of 2009. The inflation rate for cost of producing decelerated at an annual rate of 9.2 percent. Over the previous four quarters, the cost of producing inflation rate has fallen from 15.1 to -9.2 percent.

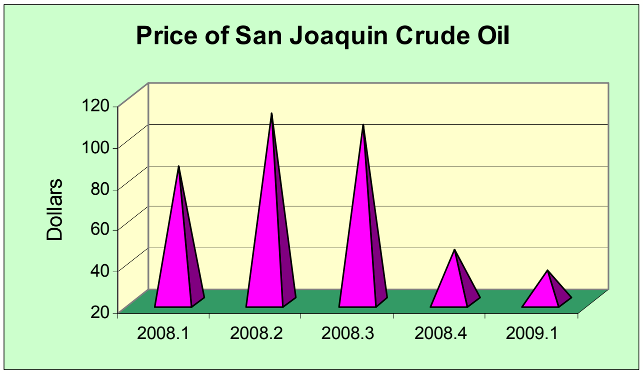


Cost of Employment - In the first quarter of 2009, the Cost of Employment Index (December 2005 = 100) increased at an annual rate of 1.2 percent as the index value rose from 109.6 to 109.9. The employment cost inflation rate was 1.8 percent lower than that of four quarters ago.

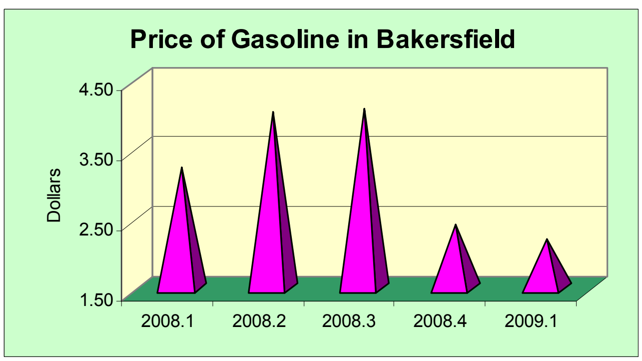


(Continued on page 21)

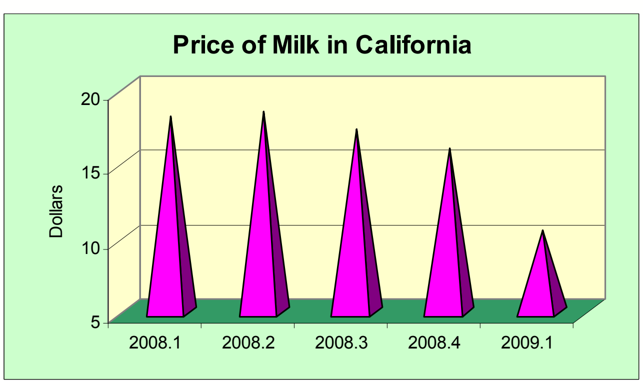
Price of Oil - The average price of San Joaquin Valley heavy crude was down $10 (or 22.2 percent) per barrel from $45.08 in the fourth quarter of 2008 to $35.08 in the first quarter of 2009. Likewise, the average price of crude oil was down $50.42 (or 59.0 percent) per barrel relative to the first quarter of 2008.



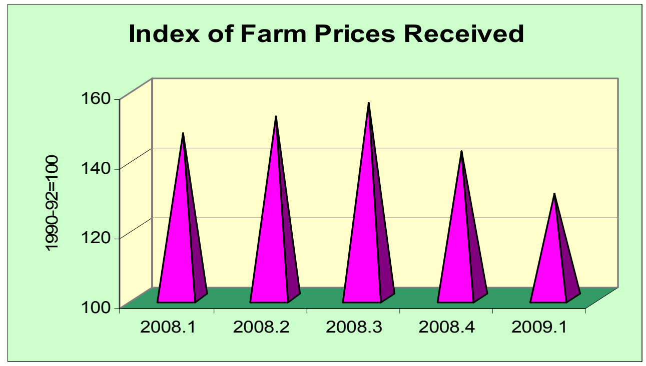
Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon fell 21¢ (or 8.7 percent) per gallon from $2.42 in the fourth quarter of 2008 to $2.21 in the first quarter of 2009. Compared with the first quarter of last year, the average gasoline price was down $1.02 (or 31.6 percent).



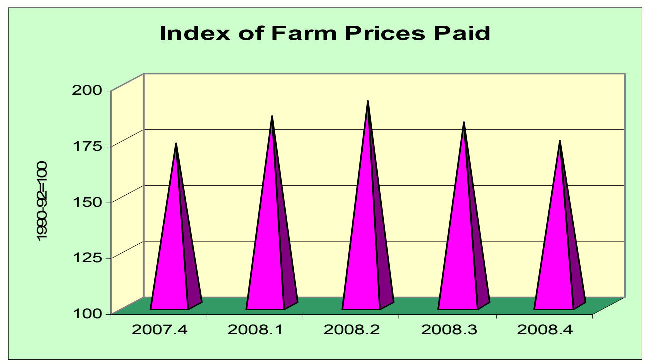
Price of Milk - The average price of California's Class III milk plunged $5.51 per cwt (or 34.5 percent) from $15.95 in the fourth quarter of 2008 to $10.44 in the first quarter of 2009. Likewise, the unit price of milk has gone down $7.68 (or 42.4 percent) since the first quarter of 2008.

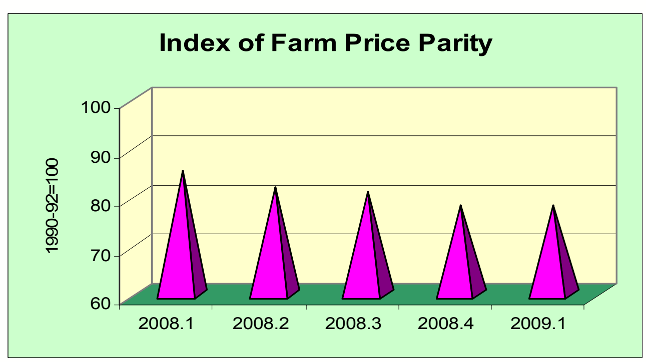


Farm Prices - In the first quarter of 2009, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) dropped 12 points to arrive at 130. This index was 17 points lower than that of four quarters ago.



The national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents declined 8 points to reach 174. However, the index has gained one point since the first quarter of last year. The Index of Farm Price Parity is the Index of Prices Received by Farmers as a percentage of the Index of Prices Paid by Farmers. In the first quarter of 2009, the Index of Farm Price Parity remained constant at 78. However, the gap between prices paid and prices received by farmers has widened 7 points since the first quarter of 2008.





Kern Economic Journal 4045
Abbas Grammy
School of Business and Public Admin.
California State University, Bakersfield
20 BDC
9001 Stockdale Highway
Bakersfield, CA 93311-1022