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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.

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Econ Brief

Air Quality in California

Air pollution from ozone and particles are major environmental hazards in the United States. Others toxic substances in the air include carbon monoxide, lead, nitrogen dioxide, and sulfur dioxide.

According to a recent report by the American Lung Association, 6 in 10 Americans (or about 175 million people) live in places where air pollution often reaches dangerous levels, despite progress in reducing particle pollution. The report estimates that nearly 30 million people live in areas with chronic levels of pollution so that even when levels are relatively low, people can still be exposed to particles that will increase the risk of asthma, lung damage, and premature death. Recently, the California Air Resources Board has tripled its estimates of premature deaths in California from particle pollution to 18,000 a year.

The Los Angeles, Bakersfield, and Visalia-Porterville metropolitan areas have the nation's worst ozone pollution. Likewise, the Bakersfield, Fresno-Madera, and Pittsburg-New Castle metropolitan areas have the worst short-term particle pollution. Similarly, Phoenix-Mesa-Scottsdale, Bakersfield, and Los Angeles-Long Beach-Riverside have the worst year-round particle pollution. While still not meeting the federal air quality standards, California's pollution-plagued areas have come a long way in cleaning their air. As a result, the number of clean-days in 2009 was more than double the number of clean-days in 1990.

Source: Excerpted from Sue Manning, "Report: Most Americans still live in areas with unhealthy air despite progress reducing smog," *CB Online*, April 28, 2010, and Associated Press, April 28, 2010.

Economy at a Glance!

Abbas P. Grammy
Professor of Economics, CSUB

The Gross Domestic Product (GDP) increased at an annual rate of 3.2 percent in the first quarter of 2010 (January through March) according to the "advance" estimate released by the Bureau of Economic Analysis. This modest growth followed a rapid expansion of 5.6 percent in the previous quarter. Expansion of the GDP in three consecutive quarters indicates that economic recovery is in progress. The increase in GDP this quarter primarily reflected positive contributions from personal consumption expenditures, private inventory investment, and non-residential fixed investment. These positive effects were partly offset by negative contributions from state and local government spending and imports.

In California, the unemployment rate rose one-tenth of one percent to reach 12.4 percent. Compared with the previous quarter, the state's workforce increased by 142,100 members. The state' economy lost 32,400 jobs and had to support 174,500 more jobless workers. While the farm labor market gained 39,600 jobs, non-farm industries cut 30,600 paid positions. A wide-range of industries cut jobs: construction, wholesale trade, transportation and warehousing, information, finance and insurance, real estate and rental and leasing, leisure and hospitality, and government agencies (federal, state, and local). In contrast, several industries added jobs: mining and logging, manufacturing, retail trade, professional, scientific and technical services, educational services, and health-care and social assistance.

In Kern County, households became more pessimistic about employment and financial conditions of their families and relatives as the *Consumer Sentiment Index* lost 16 points to reach 66. In the meantime, businesses turned less optimistic about their employment and financial conditions as the *Business Outlook Index* dropped 4 points to reach 106.

Kern's economy retrenched at an annualized rate of 2.3 percent. It generated $15.24 billion in personal income, $88 million less than the previous quarter. By and large, the loss of personal income was offset by a sizable decline of the labor force growth. As a result, personal income per worker increased by $100, reaching $40,600.

Kern County's labor market conditions deteriorated unexpectedly. Compared with the previous quarter, the county's workforce declined by 3,000 members. In the meantime, 12,600 less workers were employed and 9,600 more workers were jobless. The loss of 15,400 farm jobs was aggravated by the cut of 2,900 nonfarm jobs. While the public sector added no new jobs, private enterprises eliminated 2,900 paid positions. A wide range of industries added jobs: oil and gas extraction, construction, health-care and social assistance, and the federal government (including the Department of Defense). In contrast, several industries reduced employment: wholesale trade, retail trade, transportation, information, finance and insurance, manufacturing, and leisure and hospitality.

The rate of unemployment of Kern County climbed 2.7 percent from 14.7 to 17.4. Still below the county average, the rate of unemployment averaged 12.5 percent in Bakersfield, 14.0 percent in California City, 10.3 percent in Ridgecrest, and 11.3 percent in Tehachapi.

Kern County's housing market conditions worsened. The median sales price for all residential units depreciated $3,800 (or 2.8 percent) from $134,300 to $130,500. In Bakersfield, the median housing price depreciated $2,700 (or 1.9 percent) from $139,500 to $136,800. Likewise, the number of housing units sold decreased from 3,190 to 2,512 in Kern County and from 2,295 to 1,809 in Bakersfield. However, the number of building permits issued for the construction of new privately-owned dwelling units inclined from 358 to 465. Depreciation in housing prices coupled with loss of household income caused housing affordability to fall from 28.3 to 28.0 percent. The county's foreclosure activity slowed from 2,602 to 2,331. Of these homeowners receiving default notices, 1,536 lost their homes to foreclosure.

In commodity markets, the average price of San Joaquin Valley heavy crude was up $3.38 (or 5.0 percent) per barrel from $68.19 to $71.57. In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon rose 8¢ (or 2.8 percent) per gallon from $2.88 to $2.96. The unit price of California's Class III milk edged down 11¢ per cwt (or 0.8 percent) from $13.96 to $13.85. The index of prices farmers received for their outputs rose 3 point to

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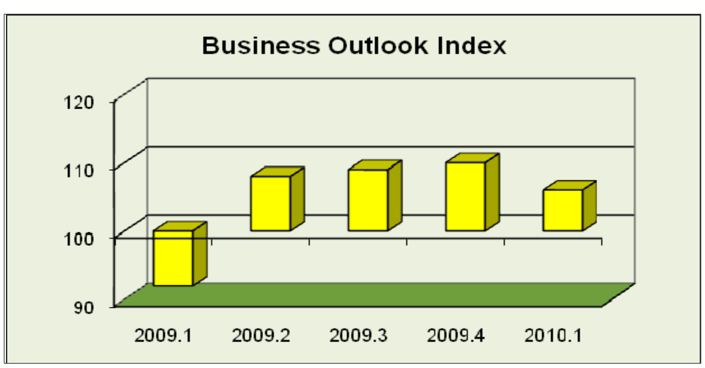
Kern Businesses Worry Now, But Optimistic About Future

Abbas P. Grammy
Professor of Economics, CSUB

Data from Kern County Business Outlook survey reveal interesting results. Local government administrators and business managers were less optimistic about local economic conditions this quarter relative to the previous quarter. In the first quarter (January through March) of 2010, the *Business Outlook Index* declined 4 points. The index stood at 106 compared to 110 in the previous quarter. Nevertheless, survey respondents expressed greater confidence in local economic conditions this quarter relative to four quarters ago as the index edged 14 points higher from 92 to 106.

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. Survey results became even more revealing because survey respondents expressed pessimistic observations about current conditions, but optimistic insights about future state of the economy. Whereas the *Current Conditions Index* plunged 9 points (from 107 to 98), the *Future Conditions Index* gained 4 points from 112 to 116.



Employment Outlook:
Sixty-two percent of interviewees reported that the number of jobs in their companies stayed constant this quarter. However, 21 percent said more jobs were available in their companies and 17 percent reported reduced employment.

Likewise, 56 percent perceived that the number of jobs would stay constant next quarter, whereas 24 percent expected their companies to hire more workers. The remaining 20 percent anticipated a smaller workforce.

Financial Outlook:
Forty-six percent of survey respondents reported that the financial conditions (sales and profits) of their companies were constant this quarter, whereas 24 percent indicated increased profits and sales and 26 percent stated lower profits and sales.

Similarly, 40 percent expected financial conditions of their companies to remain constant next quarter. However, 48 percent anticipated increased sales and profits and 12 percent predicted lower sales and profits.

Industry Outlook:
Fifty-one percent of survey respondents perceived that the employment and general business conditions of their industries remained the same as the previous quarter, while 23 percent felt these conditions improved and 26 percent felt crumbling business conditions.

Fifty percent anticipated that the employment and general business conditions of their industries would be unchanged next quarter. However, 32 percent expected progress and 18 percent felt otherwise.

	Current Quarter	Previous Quarter	Four Quarters Ago
Index of Business Outlook	**106**	**110**	**92**
Index of Current Conditions	98	107	91
Index of Future Conditions	116	112	93

(Continued on page 5)

Consumer Sentiment Gives Ground in the First Quarter of 2010

Irina Mikhailovskaya[1]

After three quarters of modest gain, Bakersfield's Index of Consumer Sentiment decreased from 82 in the fourth quarter of 2009 to 66 in the first quarter of 2010. This is the smallest reading since CSUB first started compiling the index in 1999. Bakersfield's Index closely tracks the widely followed national indices of consumer sentiment. Prior to its modest gains in the latter half of 2009, the local index declined for eight consecutive quarters from a peak of 125 in first quarter 2007 to its previous low of 73 in the first quarter of 2009. The index started to increase slowly from 73 in the first quarter of 2009 to 82 in the previous quarter.

Our survey responses were gathered during a period of increasing unemployment and widespread media speculation regarding a double dip recession. It is obvious the market is experiencing the struggle to maintain the peoples' confidence. Evaluations of consumers show that their financial situation became worse and job improvement and income growth were negligible. Nationally, the University of Michigan's index of consumer sentiment inched forward from 70.2 in the fourth quarter of 2009 to 73.9 in the first quarter of 2010, still a low value by historic standards.

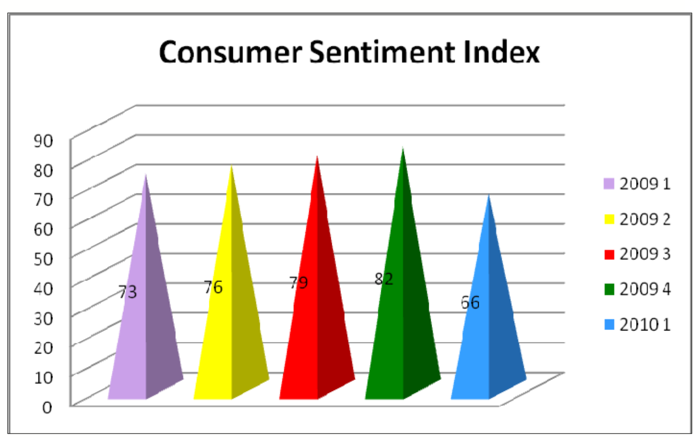
Although the Bakersfield index is similar to the University of Michigan's national index of consumer sentiment, the absolute values of the two indices cannot be compared since they have different base years and are based on different questions using different formulas.

CSUB's Economics Department compiles the Bakersfield Consumer Sentiment Index from telephone surveys of a random sample of households listed in the phone book. The index is used quarterly in order to help local businesses compare national and local trends and determine whether a Bakersfield company's sales trajectory reflects industry trends or shifts in market share.

The Bakersfield index is divided into sub-indexes reflecting financial outcomes over the previous 12 months and expectations for the coming year. The decrease in the composite index resulted from decreases in both sub-indexes. The decrease in the sub-index reflecting recent financial trends was especially large.

The sub-index measuring recent trends conditions is constructed from questions relating to discretionary spending and financial well-being compared to one year ago. The sub-index measuring these recent financial trends plunged from 81 in the fourth quarter to 52 in the first quarter. In the most recent quarter, roughly one-half the households reported their financial situation had worsened in the past year and they had spent less than usual on discretionary items. In the previous quarter, roughly one-third of the respondents reported these pessimistic developments. The percent of households reporting that the financial position of their acquaintances in Kern County had worsened nearly doubled from around one-in-three to two-in-three.

The sub-index reflecting future expectations held most of its ground, decreasing modestly from 83 in the previous quarter to 79 in the first quarter of 2010. This sub-index declined, because the percent of households believing this is a risky time to incur debt or draw down savings more than doubled from 38 to 79 percent. However, there are significant kernels of optimism in the data. The percent of households expecting their financial situation to improve over the coming year more than doubled from roughly one-in-five to two-in-five, while the percent reporting their local acquaintances expect improvement also doubled and now stands at 30 percent. Given this emerging pattern of optimism, it appears the Bakersfield Consumer Sentiment Index finally has bottomed out. Onward and upward!



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[1]*Ms. Mikhailovskaya majors in Finance at University of International Business in Almaty, Kazakhstan. She is attending California State University, Bakersfield as a participant in the Eurasian Undergraduate Exchange Program.*

Consumer Sentiment *(Continued from page 4)*

Table 1: Index Values			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	**66**	**82**	**73**
Sub-index: Current Conditions	52	81	75
Sub-index: Future Expectations	79	83	72

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).	14.9 %	36.8%	48.3%
	Better off	**Same**	**Worse off**
How your family is doing financially compared to one year ago.	9.2 %	35.6 %	55.2 %
How your acquaintances in Kern County are doing financially compared to one year ago.	0 %	36.8 %	63.2%

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	42.5 %	35.6 %	21.8%
	Optimistic	**Neutral**	**Fearful**
How your acquaintances in Kern County view the coming year.	29.9 %	28.7 %	41.4 %
	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?	6.9 %	13.8 %	79.3 %

Businesses Worry *(Continued from page 3)*

Economic Outlook:

When asked about Kern County's economy, 50 percent of interviewees perceived no improvement this quarter. Nevertheless, 18 percent felt conditions improved and 32 percent said conditions worsened.

Likewise, 54 percent felt that economic conditions would be unchanged next quarter. However, 27 percent anticipated for the economy to get better and 19 percent expected 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:

- The weak dollar helps exporting more local goods to foreign countries
- More business loans are now available
- Stimulus funds help support jobs

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

- Economic turmoil in the state government is hurting all
- Medical reimbursement cuts are detrimental to providing quality health-care
- Residential and commercial real estate markets are still weak

The CEO Profile!

Introduction

James C. Holly is a founding Director, President and C.E.O. of Bank of the Sierra. Jim was born and raised in Racine, Wisconsin and earned both a B.B.A. degree and an M.B.A. degree from the University of Wisconsin in 1964. He is a graduate of the S.W. Graduate School of Banking at Southern Methodist University, Dallas, Texas. He also served as a Commissioned Officer in the U.S. Army. Jim started his banking career as a Management Trainee with United California Bank. After 10 years as a Branch Manager, Jim then left and joined in the effort to organize Bank of the Sierra in Porterville, CA. He has been President, C.E.O. and Director since its inception in 1977. He is a past President of the California Independent Bankers, City Councilman and Mayor Pro Tem for the City of Porterville. He has served on numerous banking industry boards, and city, county and charitable boards. In his spare time, Mr. Holly farms oranges and olives and is a member of the Back Country Horseman of California.

Interview

What is the mission of Bank of the Sierra?

Bank of the Sierra is a publicly traded company represented on NASDAQ Global Markets by its holding company, Sierra Bancorp. Because of this, we are stockholder sensitive and our mission statement reflects this: "To be responsible stewards for our shareholders by providing a superior return on equity of more than 15 percent and a return on average assets of greater than 1 percent within a culture of discipline and ethical entrepreneurship. This is a fundamental stewardship responsibility."

Would you tell us a brief history of Bank of the Sierra?

Our history is that of an adaptable bank that was able to change its vision as circumstances changed. I would identify three separate visions, the first being a small community bank in the Porterville - Lindsay area. The second was that of a Tulare County wide, multi-community bank. The third vision was a south San Joaquin Valley, multi-community bank with operations in the four counties of Tulare, Kern, Fresno and Kings.

Has Bank of the Sierra been affected by sub-prime mortgage crisis that many banks have faced in recent years?

The Bank has indeed been impacted by the sub-prime mortgage crisis, even though we did not originate any sub-prime mortgages. The economic collapse that was largely precipitated by the easy and abundant credit available through sub-prime lending has had a debilitating effect on every business and consumer in America. We, as a bank, are working through this collapse and will emerge as a stronger and improved bank as a result of the experience.

How does Bank of the Sierra contribute to the community of Kern County and San Joaquin Valley?

Bank of the Sierra helps Kern County and the South Valley by providing consumers and businesses with financial services that assists with their financial success. While credit is a reliable means to that end, often services are important too, such as cash management, bill pay, certificates of deposits and remote deposit capture. We also support a wide array of local charities and nonprofit organizations.

Why are credits still tight for small business and consumer loans?

We, as a bank, have never stopped lending, even in the worst of times. Credit is not tight so much as there is a distinct lack of credit demand. Businesses and consumers lack the confidence to expand their businesses or to spend money in our present economy. Their lack of confidence limits the demand for credit. Businesses do not create credit demand, they respond to it! Until confide confidence is restored, there will be no economic recovery.

ETHICS AND PUBLIC SERVICE

CRAIG W. KELSEY
DEAN, EXTENDED UNIVERSITY DIVISION
PROFESSOR OF PUBLIC POLICY AND ADMINISTRATION, CSUB

Ethics, or the moral concept concerning what is right or wrong generally, or in a given situation or perhaps always is both an accepted notion in society and an expected and standard code of conduct in public service. But what is ethical is a complex, sometimes relative and perhaps debatable topic. Historically the foundation of what is ethical was based on principles of reason, truth, context and a sense of a fixed right or wrong. Overtime, relativity and world views have influenced these principles and shifts to include credibility, justifiable consequence and multiple cultural traditions have shaded the conversation.

Despite these struggles to better define what is ethical, the role of the public servant is clear… a high and unquestioned standard exists. The following case scenario was developed by the Markkula Center of Applied Ethics of Santa Clara University (www.csu.edu/ethics).

> *The son of Mayor Maximum plays Little League baseball for the Blue Jays. The city annually awards the Little League a $5,000 community service grant to assist in its operations and waives the city park use fee for the League's use of city ball fields. It is not clear from the information submitted by the League whether the city's contribution reduces the cost that would otherwise have to be passed on to families of the Little Leaguers. The city does not have a policy prohibiting grants to organizations in which family members of city officials or employees participate.*

The case study poses two questions: (1) should Mayor Maximum participate and vote on the grant award to the Little League?, and (2) would it matter if other members of the council had children participating in the Little League?

This simulation poses interesting questions. There are at least two ways that a public service professional may respond to questions regarding ethics. The first is to consult their professions accepted code of ethics. These standards are generally based on reasoned principles that have endured over time and seem reasonable and reflective of professional conduct. Most professions have statements of ethical behavior. The American Society of Public Administration has set five standards as their foundational principles. Within each of these broad concepts are more specific elements designed to help guard the public servant in moments that require ethical actions.

I. **Serve the Public** is based on commitments to: public interest, non discrimination, transparency, citizen involvement, fairness, public responsiveness, and assisting the citizen.
II. **Respect the Constitution and the Law** concerns itself with: understanding legislation, regulations and laws and the policies and procedures used to develop such. In addition, the administrator is committed to protection of public interest, funds, privileged information and citizen rights.
III. **Demonstrate Personal Integrity** is based on standards of truthfulness, honesty, respect, responsibility and to avoid partisanship and conflict of interests.
IV. **Promote Ethical Organization** is a concept designed to ensure that the organization has principles to guide its purpose such as: open communication, loyalty, accountability, due process, avoiding arbitrary actions and a periodic focus on ethics.
V. **Strive for Professional Excellence** is to strengthen the professional development of others by encouraging competence, currency within the profession, professionalism and service to the emerging professional.

These standards are helpful but may not provide sufficient direction in the variety of circumstances that public service employees find themselves. A second approach is to follow an ethics decision making model. There are a number of frameworks that assist as an individual works through more complex issues. The following steps may prove helpful:

Step One: Spend time thinking through the issue, question, circumstance or situation. Identify the various ele-

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Bakersfield Commercial Real Estate Rebounding

***Wayne Kress*[1]**

SIOR | First Vice President | Industrial Properties | CBRE

After a dismal 2009, commercial real estate around Bakersfield is coming back to life. Through the first quarter of 2010, the industrial sector is strongest, followed by office, then retail. Industrial began experiencing increased activity in mid third quarter of 2009 (inquiries, showings, proposals), followed by increased office activity in the fourth quarter, and by retail in the first quarter of 2010.

Plenty of uncertainty exists, however, given the overall economy's tentative recovery and the cloud hanging over the market formed by maturing real estate debt. For example, 346 local industrial properties are collateral for debt originated between 2003 and 2007. These loans begin maturing in earnest in 2010, and with the combination of declining values and far more stringent underwriting standards, it is not at all clear yet how this debt will be paid off or replaced.

Total Market	1Q08	1Q09	1Q10
Industrial-Building Absorption			
Sales	73,392 sf	130,016 sf	277,234 sf
Leases	833,378 sf	174,678 sf	214,120 sf
Total	906,668 sf	304,694 sf	491,354 sf
Vacancy	5.3%	7.3%	10.5%
Office-Buildings Absorption			
Sales	21,153 sf	23,149 sf	14,141 sf
Leases	19,680 sf	82,591 sf	47,981 sf
Total	40,833 sf	105,740 sf	62,122 sf
Vacancy	8.6%	9.6%	9.5%

Sales	1Q08	1Q09	1Q10
Industrial Buildings			
Sales	73,392 sf	130,016 sf	277,234 sf
Number of Sales	4	9	6
Average SF per Sale	18,323 sf	14,446 sf	46,206 sf
Average Sales Price	$48.10 /sf	$86.02 /sf	$33.65 /sf
Office Buildings			
Sales	21,153 sf	23,149 sf	14,141 sf
Number of Sales	5	4	7
Average SF per Sale	4,231 sf	5,787 sf	2,020 sf
Average Sales Price	$193.96 /sf	$200.38 /sf	$111.90 /sf

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[1]Other contributors to this article are Coby Vance, Pat Thompson, Fred Wilkerson, and Kari Sturgeon

Commercial Real Estate (Continued from page 8)

Sales that have occurred have been generally all-cash acquisitions, driven by exchanges or vulture buyers. Sellers aren't selling unless they have to, a condition buyers are taking advantage of. Cap rates have risen from mid-6 percent in 2006 to nearly 10 percent today, which resulted in a 35-percent decline in value of the same cash flow.

What is not shown in these statistics is the higher-than-expected amount of "openings" (sale or lease agreements that have been entered but not yet fulfilled). In the industrial sector, we opened more than twice what we expected to open in the first quarter of 2010. Not all openings close, and we have already experienced some fallout, but this is an effective foreshadow what we expect to close in the second and third quarters of this year.

Leases	1Q08	1Q09	1Q10
Industrial Buildings			
Leases	833,378 sf	174,678 sf	214,120 sf
Number of Leases	24	9	6
Average SF per Lease	34,724 sf	14,446 sf	46,206 sf
Average Lease Rate	37.2¢ /sf/mo	48.3¢ /sf/mo	28.1¢ /sf/mo
Office Buildings			
Leases	19,680 sf	82,591 sf	47,981 sf
Number of Leases	5	20	20
Average SF per Lease	3,936 sf	4,130 sf	2,399 sf
Average Lease Rate	$1.53 /sf/mo	$1.04 /sf/mo	$1.03 /sf/mo

Ethics (Continued from page 7)

ments of the ethical dilemma in a thoughtful and reflective manner. In the Mayor Maximum case study, what are the issues?

Step Two: Clarify the goal of the decision. Of course the primary goal is to be ethical, but are there other forces that impact the decision making process, such as, convenience, expediency, usefulness, rightness, fairness, good for the greater group?

Step Three: Determine and gather the needed facts and data that surround the issue. This may involve personal contemplation, researching policies, consulting others, or seeking hidden information. What other information may be helpful to have available in the Mayor Maximum simulation?

Step Four: Develop and evaluate the options that seem most reasonable and logical. The basis for the options may be closely connected to the goal of being ethical or the other forces in play such as the impact on the greater good. What are Mayor Maximum's possible options and importantly, the consequences of these options?

Step Five: Determine the decision, implement and study the consequence and value of the decision. When implementing the decision a number of self questions can be asked; how do I feel about the decision, how would the decision sound to others, how can the implementation be most carefully handled?

Step Six: Modify the decision if in fact it was poorly thought through, was misunderstood, did not achieve its objective or in some way did not meet the level of ethical standard that was set. This is a time of reflection, monitoring and adjusting if necessary. In the Mayor Maximum exercise, what would be the best decision, - what would be the poorest decision?

Ethics are a critically important concept in society, business and public service. What is ethical may change based on circumstances, context or local convention. Public servants have a high standard of expectation from society but also as a part of self regulation of the profession. Besides codes of ethics to guide complex issues, decision making models are also helpful.

Housing Foreclosure Activity in Kern County

Ashley Mabee[1]
Mathematics and Economics Student, CSUB

Despite the multitude of literature concerning the housing market, there is a lack of analysis on California and especially Kern County. In this article, I will study possible causes of the foreclosure crisis nationwide. I will then analyze the contrasting federal and state legislations passed in 2008 and 2009 that attempted to improve housing market conditions. Moreover, I will compare the potential effect of housing affordability on foreclosure rates in California and the United States. Finally, I will model Kern County's housing market conditions using monthly data over the previous twenty years, when residential real estate experienced periods of boom and bust.

Since 2008 the literature on the foreclosure crisis has been abundant. Much of the early literature on the foreclosure crisis focused on negative equity in the housing market. Before the crisis started, homeowners could simply sell their home if the monthly mortgage payments became too burdensome. When housing prices began to fall, in early 2007, the market became less liquid, and people could no longer sell their homes as soon as they were placed on the market. This lack of liquidity forced many people to foreclose their homes. Other homeowners chose to default because they believed that the cost of making mortgage payments on units with negative equity values outweighed the benefits of keeping their homes. This choice is known as the *strategic default*. The proportion of strategic to non-strategic defaulters is heavily dependent on recourses available to lenders through state laws. Other researchers pointed out that many major banks red-lined low income areas from borrowing mortgage loans. Therefore, independent mortgage companies and brokers, such as Countrywide Financial, targeted these areas. These companies often steered borrowers towards subprime loans or required borrowers to pay outrageous fees and interest. However, these independent mortgage companies would not have been able to create such chaos in the market if it were not for the deregulation of the 1980s and the improvement of automated underwriting systems in the 1990s.

Legislations pertaining to the foreclosure crisis in California came quicker than federal legislations and were more aggressive. For example, on July 8, 2008 Governor Shwarzenegger approved Senate Bill 1137, which required lenders to wait 30 days after contacting borrowers (or attempting to contact with "due diligence") to file a default notice if the loan originated between January 1, 2003, to December 31, 2007 (SB 1137). Later in July 2008, the Housing and Economic Recovery Act was enacted by Congress, which included the establishment of the Neighborhood Stabilization Program (H.R. 3221). California continued to pass a slew of legislation that focused on preventing mortgage brokers and lenders from using predatory lending practices. These legislations include AB 260, SB 94, AB 34, and SB 36. California also passed the California Foreclosure Prevention Act in early 2009 which placed a 90 day moratorium on loans originating between January 1, 2003 and January 1, 2008. In 2009 the federal government signed in the American Recovery and Reinvestment Act that allocated one billion dollars to Community Block Grants and $2 billion to the Neighborhood Stabilization Program (NAHRO Staff, 2009). Also last year the Helping Families Save Their Homes Act further extended the Hope for Homeowners program and provides more assistance to distressed owners through loan forbearance, extending mortgages up to 40 years, and other methods (S.896: Helping Families Save Their Homes Act of 2009, 2009).

The behavior of California's housing market differed from the rest of the United States. When looking at affordability of housing measured by the median housing price to median household income ratio and foreclosure rates, the two variables have a statistically significant positive correlation in California counties. However, in a sample of U.S. counties, there was no statistically significant correlation. Prior to the housing market boom, Kern County was one of the most affordable places to live in California. My hypothesis is that areas like San Francisco County and Santa Barbara County did not experience the same surge in the housing market followed by a horrific downfall, like Kern County, because the initial expense of these homes created a barrier that made it too costly for many investors or first time buyers to purchase homes in these regions, hence never creating

(Continued on page 11)

[1]This is summary of a paper that won the CSUB Student Research Competition and was presented at the system-wide competition. Dr. Hegde is Ms. Mabee's faculty sponsor in the research competition. Upon graduation, Ms. Mabee will enroll in the economics doctoral degree program at North Carolina State University.

the momentum needed to form a housing bubble similar to the one formed in Kern County.

The final component of this research is to model housing foreclosure activity in Kern County, using monthly data from January 1990 to January 2010[2]. The variables in the model are: *the number of default notices*, *12-month percentage change of nonfarm employment*, and *30-year conventional mortgage loan rate*. The *number of default notices* is the variable of interest because receiving a default notice is the first step toward foreclosure. The *12-month percentage change of Nonfarm employment* is used as a measure of the health of the regional economy. This variable is believed to be less biased than the employment rate. The *30-year conventional mortgage loan rate* can influence the demand for housing and, in turn, can affect housing prices.

The results of the model agree with my prior intuition. When the *30-year conventional mortgage loan rate* increases, there is an increase in the *number of default notices.* More precisely, if the mortgage rate increased by one percent from one month to the next (e.g., from January to February), then the number of default notices would rise by twenty-two from February to March. There is a negative association between the *12-month percentage change of nonfarm employment* and the *number of default notices.* If the *12-month percentage change of nonfarm employment* increased by one percent from January to February, then the number of default notices would fall by five February to March. In other words, if more workers are employed, fewer homeowners would default on their mortgage loan payments.

In the following charts, I forecast the *number of default notices* for future months. Using this model, I present 95 percent confidence intervals for Kern County's foreclosure activity from February 2010 to March 2011. The confidence interval forecast gives a lower bound and an upper bound for likely values of the variable being predicted. The level of confidence indicates that the forecast will be correct 95 percent of time if this model was repeated many times. The farther out into the future one goes, the larger the confidence intervals become because of greater uncertainty. I hereby note that the actual *number of default notices* in March 2010 was 932, which falls within the forecasted confidence interval of that month and falls short of my mid-point forecast of 955 by only 14. Being optimistic, the lower bond forecasts show that the *number of default notices* could gradually fall to as low as 498 in March 2011. In a pessimitic view, the upper bound forecasts indicate that a delayed recovery in the housing market may keep the *number of default noticed* high and slowly rising to as high as 1,511 in March 2011.

Interval Forecast for Loan Default Notices		
Month	Lower Bound	Upper Bound
March 2010	751	1,140
April 2010	710	1,207
May 2010	676	1,254
June 2010	650	1,294
July 2010	628	1,326
August 2010	608	1,355
September 2010	589	1,381
October 2010	572	1,406
November 2010	556	1,429
December 2010	540	1,451
January 2011	525	1,472
February 2011	512	1,492
March 2011	498	1,511

Although the past couple of years were turbulent times in Kern County and California, the future looks brighter. California's aggressive legislations to further regulate the housing market and to stem foreclosures would likely prevent a second wave of foreclosures to occur. Also my forecast of the *number of default notices* looks promising. For most of 2009, the monthly totals for default notices in Kern County were above 1,000 default notices with a peak in March 2009. However, my forecast shows that another peak is unlikely to arise in the near future. Overall, there is strong evidence that Kern County's housing market will to improve.

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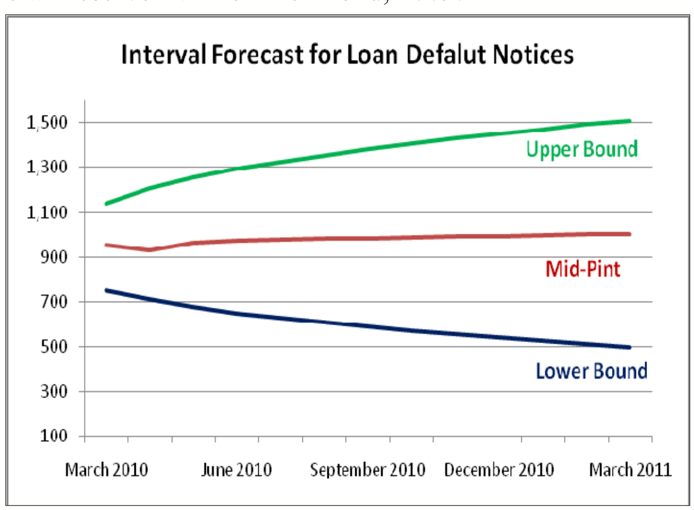

[2] The forecasting method is Cointegrated Vector Autoregressive

(Continued on page 13)

Book Review

Simon Johnson and James Kwak, *13 Bankers*, Pantheon, 2010

Reviewed by Mark Evans
Associate Dean and Economics Professor , CSUB

It was 1998. The economy was humming. However, Brooksey Born of the Commodity Futures Trading Commission was worried about rapid growth of unregulated over-the-counter derivatives. She proposed issuing a "concept paper" to initiate public debate. Larry Summers, Deputy Treasury Secretary, warned Born, "I have thirteen bankers in my office, and they say if you go forward with this you will cause the worst financial crisis since World War II." Summers, Greenspan, and Rubin, et al. moved into action. By 2000, the Commodity Futures Modernization Act became law, exempting custom derivatives from regulation.

Fast forward to March 27, 2009. President Obama has convened the CEOs of thirteen major financial institutions, imploring them, "Help me, help you ... We're all in this together."

And so begins 13 Bankers by Simon Johnson and James Kwak. Johnson's past stint as chief economist for the IMF shapes his perspective. In Chapter Two, he summarizes how the U.S. Treasury Department and IMF have handled financial crises in emerging nations. "Although severe crises are generally preceded by a large buildup of debt, the appetite for debt is the product of political factors, most often including close relationships between the economic and political elites ... Fundamental reform requires more than rearranging the seats on the government lifeboat; it requires weakening the economic and political power of the oligarchs and creating a healthier, more competitive economic system." (pp. 48-52)

The conventional wisdom was that "it couldn't happen here." Our economic and political systems were distinct. "Not so," say the authors. In this book, economist Johnson joins historian Kwak in providing an informative and engaging financial analysis in the best tradition of political economy. They demonstrate the similarities in cause and cure between our most recent financial crisis and those that preceded it domestically as well as overseas.

Chapter One provides historic context with brief, yet lively and cogent interpretations of episodes in our financial history: Thomas Jefferson versus Alexander Hamilton, national banking and Andrew Jackson, Teddy Roosevelt and the antitrust movement, creation of the Federal Reserve System, and the Great Depression and Banking Act of 1933. The core of the book provides an account of major financial developments, economic outcomes, and policy responses from the 1980's to the present. While Johnson and Kwak agree that a rescue package was needed to prevent an even larger economic disaster, they resent the fact that the United States did not make its large financial institutions take the same medicine that it has imposed in other countries as a condition for being rescued. We could have preserved liquidity and credit flows by taking over failed banks, cleaning up their balance sheets, and either shutting them down or returning them to private ownership. Instead, we accomplished these objectives at much greater cost so as to simultaneously preserve the economic positions of investors, CEOs, and their management teams. The authors note Larry Summers reflecting, "It is easier to be for more radical solutions when one lives thousands of miles away than when it is one's own country." (p. 174)

While Johnson and Kwak favor initiatives relating to consumer protection and stricter oversight of financial institutions, securitization and over-the-counter derivatives, they argue these approaches do not go far enough to address the political influence of Wall Street and "too big to fail." They propose limits on the size of financial institutions and find no empirical evidence suggesting that the limits they suggest would adversely affect efficiency or pace of innovation. Whether or not one agrees with this prescription, 13 Bankers has much to offer. It will remain on my shelf as a valuable reference.

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At a Glance *(Continued from page 2)*

reach 138, and the index of prices farmers paid for their inputs climbed 7 points to arrive at 184. As a result, the parity between output prices farmers received and input prices farmers paid widened 1 point to reach 75.

The composite price index (2009.1 = 100) of the top five locally traded stocks inclined 6.9 points from 112.0 to 118.9. Relative to four quarters ago, the composite price index of stocks for these *market-movers* edged 18.9 points higher. Average stock prices rose for Tejon Ranch Company, Wells Fargo Company, Granite Construction, and Sierra Bancorp, but fell for Chevron Corporation U.S.

Housing Foreclosure *(Continued from page 11)*

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Econ Brief

Kern Personal Income Shows Growth

According to a recent report published by the U.S. Bureau of Economic Analysis, Kern County had the seventh strongest growth rate in total personal income between 2007 and 2008 among California's 58 counties (see *Business First*, April 22, 2010).

At the county level, the size of an economy is measured by *total personal income*, which is the sum of money received by all county residents in a given year. It encompasses such diverse sources of income as salaries, interest payments, dividends, rental income, and government checks.

According to the report, Kern County's *total personal income* (not adjusted for inflation and seasonal changes) was $23.95 billion in 2008, up 4.0 percent from the previous year. The only California counties with higher growth rates were Colusa (13.3 percent), Glenn, (7.7 percent), Imperial (6.7 percent), Modoc (5.8 percent), Yuba (5.6 percent) and Del Norte (4.2 percent).

Kern County's *per capita personal income* rose to $30,047 in 2008 from $29,340 in 2007 for a growth rate of 2.4 percent. The difference between the growth rates of *total personal income* and *per capita personal income* indicates that Kern County's population grew 1.6 percent between 2007 and 2008.

Kern County's Economic and Demographic Indicators

Total Personal Income:		Growth of Total Personal Income:	
2000	$14.28 billion	2000-2008	67.8%
2007	$23.02 billion	2007-2008	4.0%
2008	$23.95 billion		
Per Capita Personal Income:		Growth of Per Capita Personal Income:	
2000	$21,500	2000-2008	39.6%
2007	$29,340	2007-2008	2.4%
2008	$30,050		
Population:		Growth of Population:	
2000	624,250	2000-2008	28.2%
2007	787,200	2007-2008	1.6%
2008	800,500		

Econ Brief

Measuring Affluence in California

The Portfolio.com and biz-journals identified the most affluent cities in the United States. The sample included 420 cities, incorporated towns, and census-designated places that had populations above 75,000. To evaluate urban affluence, they analyzed data on the following economic indicators:

- Per capita income
- Median household income
- Percentage of households with annual incomes of $200,000 or more
- Upper 20 percent threshold for household income
- Median housing price
- Upper 25 percent threshold for home value

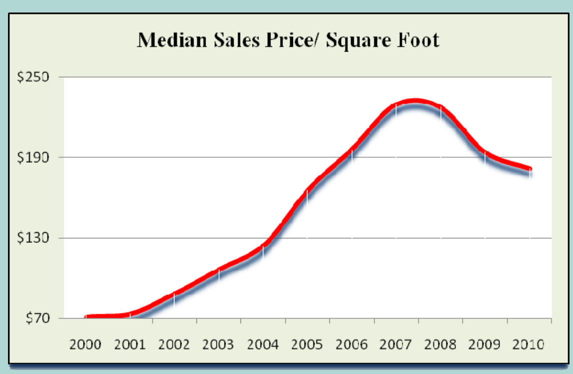
After adjusting for the effects of the recent housing market bubble and data outliers, they calculated a composite score of affluence. Accordingly, the most affluent city in the nation is Newport Beach, California, and the least affluent is Reading, Pennsylvania. Nearly one-fifth (102 out of 420) of all cities in the sample are located in California. Of the top 10 affluent cities in the nation, 7 are in California: Newport Beach, Pleasanton, Santa Monica, Mountain View, Thousand Oaks, San Francisco, and Sunnyvale.

The following table presents a listing of the most affluent cities in California by region with respect to the *percentage of households with annual incomes of $200,000 or more per year*. In Southern California, Newport Beach, Santa Monica, and Thousand Oaks top the list of households making that much annual income, In Northern California, the most affluent cities are Pleasanton, Mountain View, and San Francisco. Bakersfield ranks 204th in the nation and 81st in the state. In the San Joaquin Valley, Bakersfield ranks 4th behind Tracy, Clovis, and Visalia, but above Modesto, Fresno, Stockton, and Merced.

Southern California			Northern California			San Joaquin Valley		
Rank	City	Households with Incomes ≥$200,000	Rank	City	Households with Incomes ≥$200,000	Rank	City	Households with Incomes ≥$200,000
1	Newport Beach	28.6%	2	Pleasanton	23.6%	100	Tracy	5.3%
5	Santa Monica	14.0%	6	Mountain View	13.8%	118	Clovis	4.9%
7	Thousand Oaks	14.0%	8	San Francisco	14.2%	198	Visalia	3.5%
15	Irvine	11.4%	10	Sunnyvale	13.7%	204	Bakersfield	3.2%
18	Huntington Beach	11.1%	13	San Mateo	10.6%	208	Modesto	2.4%
19	Carlsbad	11.2%	16	Fremont	13.0%	250	Fresno	2.7%
22	Mission Viejo	10.2%	29	Santa Clara	8.7%	261	Stockton	1.8%
32	Pasadena	9.2%	31	San Jose	10.8%	284	Merced	2.8%
34	Torrance	7.1%	50	Folsom	8.4%			
39	Santa Barbara	7.2%	61	Oakland	5.9%			

Econ Brief

Market for New Commercial Real Estate in Kern County



While fluctuating, the number of new commercial units sold in Kern County increased from 6 in 2000 to 13 in 2005 and 2006. However, in the ensuing market slump, sales dropped gradually to 3 in 2009. The demand for new commercial real estate is expected to rise to 5 in 2010.

The median sales price of new commercial real estate fluctuated widely from one year to the next. With an average annual appreciation rate of 17.5 percent, the median price increased from $237,800 in 2000 to $395,800 in 2004. The median price fell to $322,500 in 2007; it then climbed to $469,400 in 2008, but plunged to $296,600 in 2009. In 2010, we project the median price to reach $289,000.

A better way to look at the state of the real estate market is to track the median sales price per square foot. The median price per square foot more than tripled from $73 in 2000 to $230 in 2007. It then declined gradually to $194 in 2009. We project the median price to fall to $182 in 2010.

Source: DataQuick, dqnews.com

TRACKING KERN'S ECONOMY[1]

2010 FIRST QUARTER

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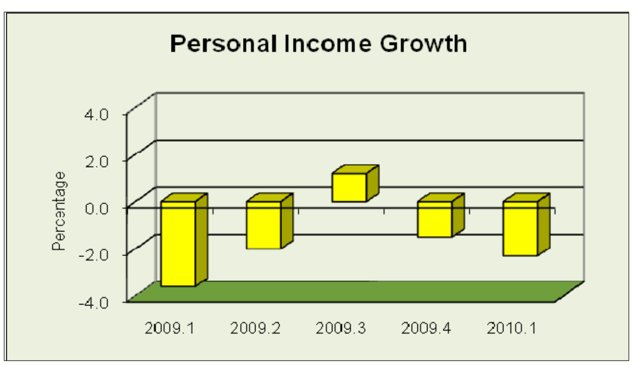
PROFESSOR OF ECONOMICS, CSUB

Economy

Personal Income - Kern County's total personal income (in constant 1996 dollars and adjusted for seasonal variations) declined $88 million from $15.33 billion in the fourth quarter of 2009 to $15.24 billion in the first quarter of 2010. Several factors contributed to this decline, including falling labor income, increased payment for unemployment and entitlement benefits, declining housing sales and prices, shrinking business profits, and loss of residential property to foreclosure. This quarter's personal income was $184 million lower than that of four quarters ago.

Growth of Personal Income - The loss of $88 million of personal income translated into a negative annualized growth rate of 2.3 percent in the first quarter of 2010 compared with a negative growth rate of 1.5 percent in the previous quarter. However, this quarter's rate of economic decline was 1.3 percent slower than that of four quarters ago.



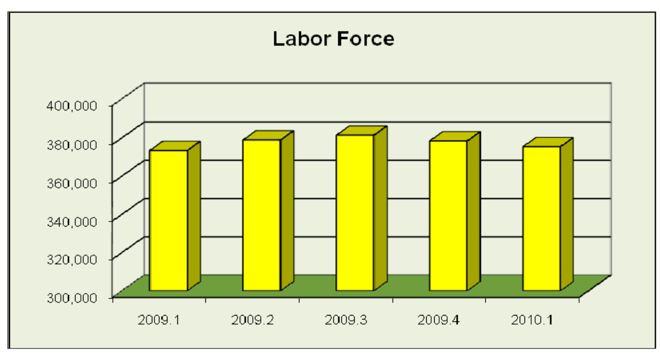
Personal Income Per Worker - Interestingly, the loss of personal income was largely offset by a sizable decline in the labor force. As a result, personal income per worker increased $100 from $40,500 in the fourth quarter of 2009 to $40,600 in the first quarter of 2010. However, personal income per worker was $710 less than that of four quarters ago.

Labor Market

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

Labor Force	Total Employment	Total Unemployment	Farm Employment	Nonfarm Employment	Private-sector Employment	Public-sector Employment
-3,000	-12,600	9,600	-15,400	-2,900	-2,900	0

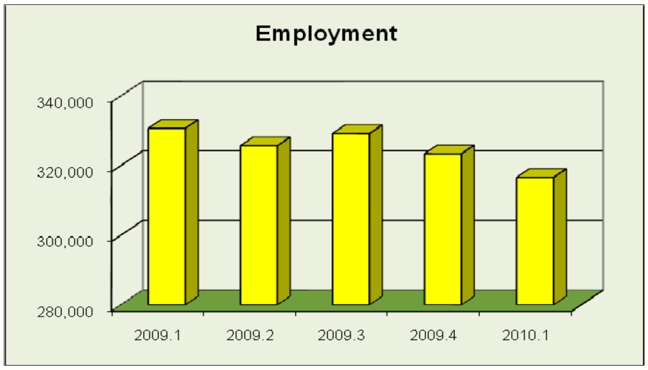
Labor Force - The civilian labor force decreased by 3,000 workers from 378,400 in the fourth quarter of 2009 to 375,400 in the first quarter of 2010. However, the labor force has increased by 2,000 workers since the first quarter of 2009.



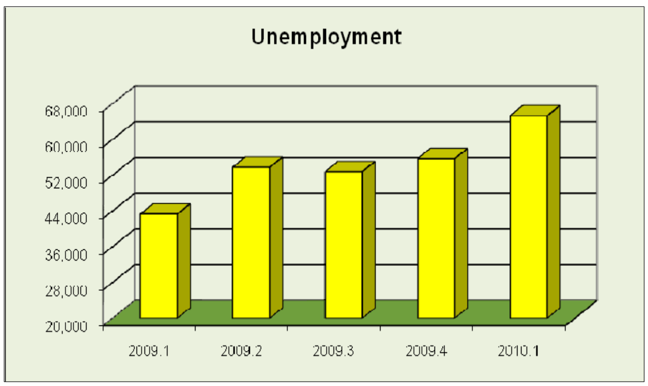
Employment - In the first quarter of 2010, Kern County's economy lost 6,800 jobs as total employment declined from 323,400 to 316,600. Likewise, the county employed 14,100 less workers relative to the first quarter of last year.

(Continued on page 16)

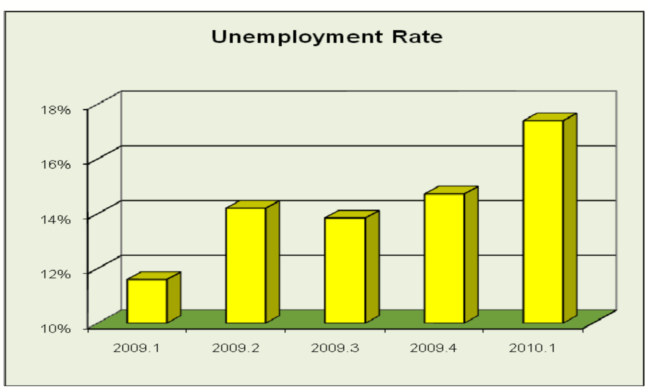
[1]Source - Online databases: labormarketinfo.edd.ca.gov, bakersfieldgasprices.com, dqnews.com, economagic.com, bea.gov, bls.com, gpoaccess.gov, dairy.nu, msn.com, census.gov, kerndata.com, and bry.com



Unemployment - The number of jobless workers increased by 9,600 as unemployment rose from 55,700 in the fourth quarter of 2009 to 65,300 in the first quarter of 2010. Similarly, 22,000 more workers were unemployed this quarter than four quarters ago.



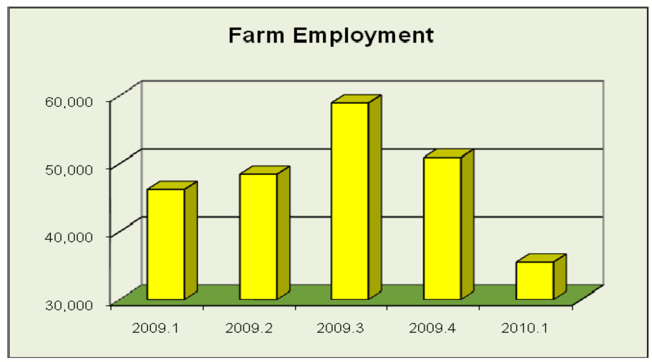
Unemployment Rate - The rate of unemployment climbed 2.7 percent from 14.7 in the fourth quarter of 2009 to 17.4 in the first quarter of 2010. Relative to four quarters ago, this quarter's unemployment rate was 5.8 percent higher.



The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate ranged between 10.3 percent in Ridgecrest and 42.0 percent in Arvin. In Bakersfield, the rate of unemployment was 12.5 percent.

Unemployment Rate of Cities			
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Ridgecrest	10.3	Mojave	19.6
Tehachapi	11.3	Lake Isabella	20.6
Bakersfield	12.5	Shafter	29.9
California City	14.0	Lamont	30.0
Rosamond	14.7	Wasco	30.9
Frazier Park	15.6	McFarland	34.4
Taft	17.3	Delano	40.7
Oildale	18.5	Arvin	42.0
Note: City-level data are not adjusted for seasonality.			

Farm Employment - In the first quarter of 2010, Kern County lost 15,400 farm jobs as employment decreased from 50,900 to 35,500. Likewise, the county's farm employment this quarter was 10,700 less than that of four quarters ago.



Nonfarm Employment - Kern County lost 2,900 jobs in the market for nonfarm labor. The number of jobs in this market decreased from 241,200 in the fourth quarter of 2009 to 238,300 in the first quarter of 2010. Similarly, nonfarm industries employed 6,800 fewer workers this quarter relative to that of four quarters ago.

A wide range of industries added jobs this quarter: oil and gas extraction, construction, health-care and social assistance, and the federal government (including the Department of Defense). In contrast, several industries reduced employment: wholesale trade, retail trade, transportation, information, finance and insurance, manufacturing, and leisure and hospitality.

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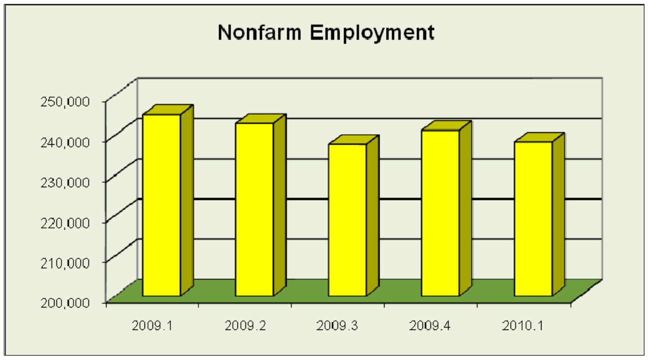
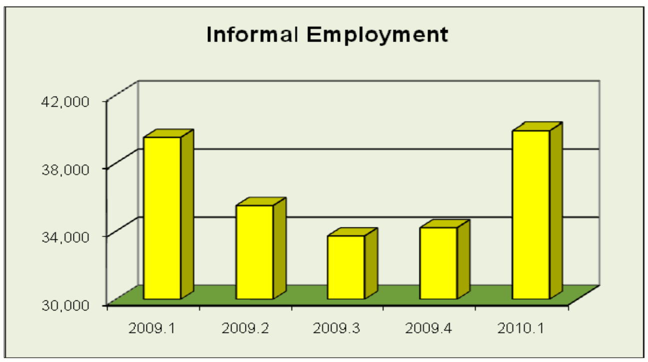
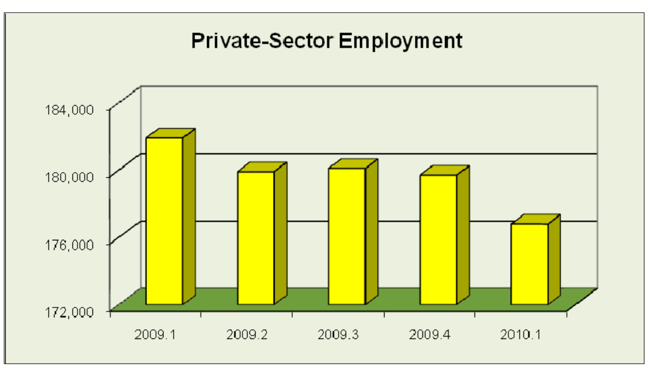


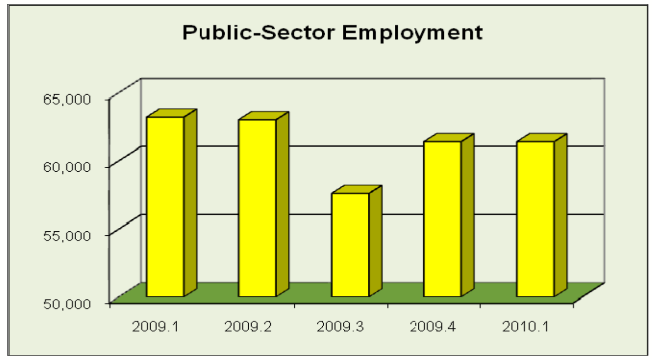
Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those who work outside their county of residence. In the first quarter of 2010, the number of workers engaged in this market increased by 5,700 from 34,210 to 39,910. The informal labor market offered 400 more jobs this quarter 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 2010, private companies cut 2,900 jobs as their employment fell from 179,700 to 176,800. Likewise, the private sector offered 5,100 fewer jobs this quarter than that of four quarters ago.

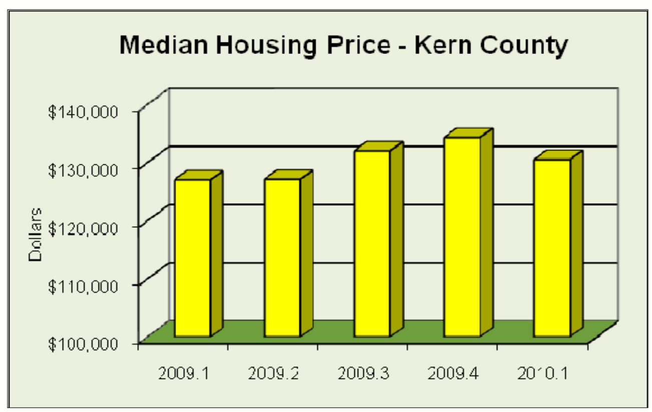


Public-sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the first quarter of 2010, employment in government agencies remained constant at 61,400. However, the public sector employed 1,800 fewer workers relative to four quarters ago.



Housing Market

Housing Price - In the first quarter of 2010, Kern County's housing market conditions deteriorated. The median sales price for all residential units depreciated $3,800 (or 2.8 percent) from $134,300 to $130,500. Still, the county's median housing price was $3,500 (or 2.8 percent) higher than that of four quarters ago.



Likewise, the median housing price depreciated $2,700 (or 1.9 percent) from $139,500 to $136,800 in Bakersfield. Nevertheless, the city's median housing price was $7,300 (or 5.6 percent) higher than that of four quarters ago.

Housing price changes varied across the county. Among selected locations shown below, the median sales price depreciated in Bakersfield, Delano, Ridgecrest, Rosamond, and Tehachapi.

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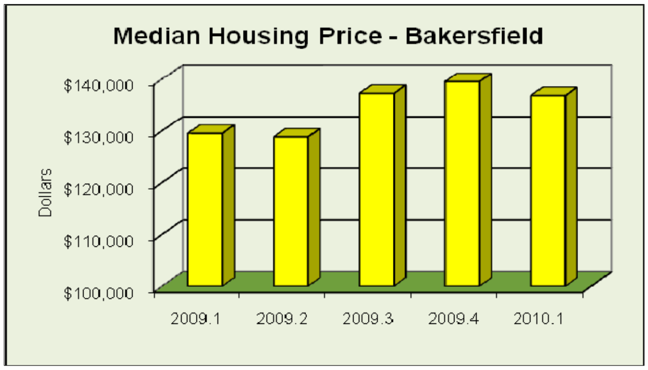
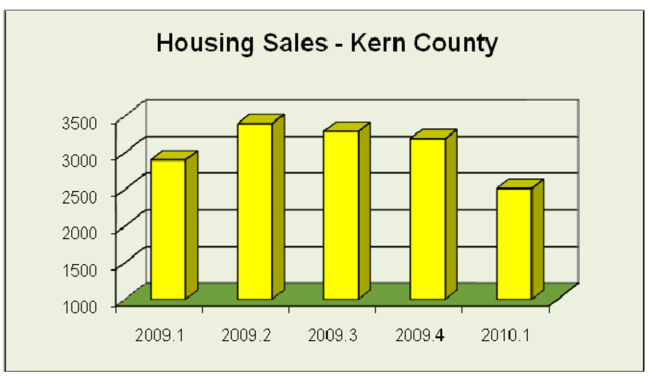
Tracking (Continued from page 17)

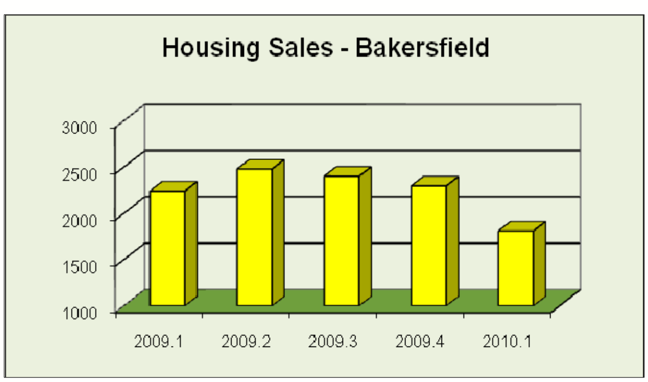


Location	Median Price 2009.4	Median Price 2010.1	Price Change 2009.4-2010.1	Price Change 2009.4-2010.1
Kern County	$134,300	$130,500	-$3,800	-2.8
Bakersfield	$139,500	$136,800	-$2,700	-1.9
California City	$59,600	$62,900	$3,300	5.5
Delano	$126,700	$112,300	-$14,400	-11.4
Ridgecrest	$151,100	$144,700	-$6,400	-4.2
Rosamond	$125,500	$122,200	-$3,300	-2.6
Taft	$37,750	$58,800	$21,050	55.8
Tehachapi	$186,200	$172,100	-$14,100	-7.6

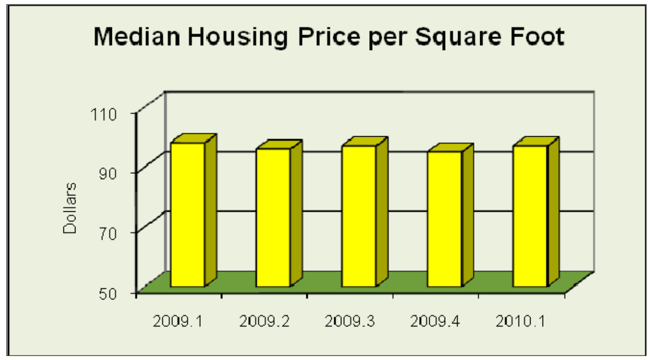
Housing Sales - In Kern County, 678 fewer homes were sold as total sales declined from 3,190 in the fourth quarter of 2009 to 2,512 in the first quarter of 2010. Likewise, sales were down by 388 units this quarter relative to the first quarter of last year.



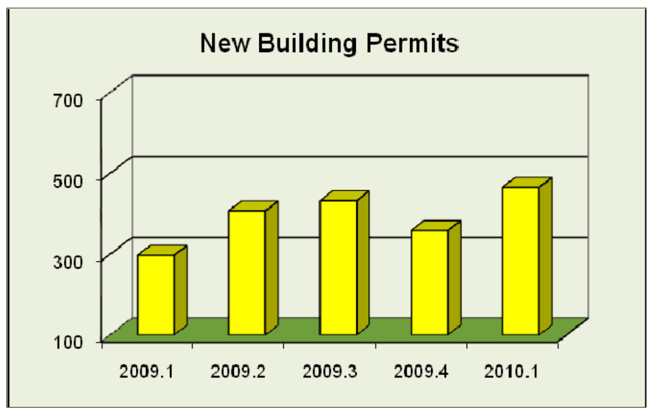
In Bakersfield, 486 fewer homes were sold as sales of residential units fell from 2,295 in the fourth quarter of 2009 to 1,809 in the first quarter of 2010. Similarly, sales were down by 430 units this quarter relative to the first quarter of last year.



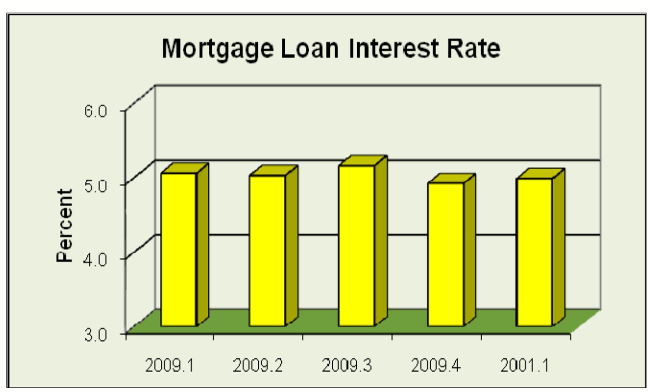
Median Housing Price per Square Foot - The median sales price per square foot of housing area inclined $2 from $95 in the fourth quarter of 2009 to $97 in the first quarter of 2010. Nonetheless, the median housing price per square foot has dropped $1 since the first quarter of last year.



New Building Permits - In the first quarter of 2010, the number of building permits issued for the construction of new privately-owned dwelling units increased by 107 from 358 to 465. Likewise, 168 more building permits were issued this quarter relative to four quarters ago.



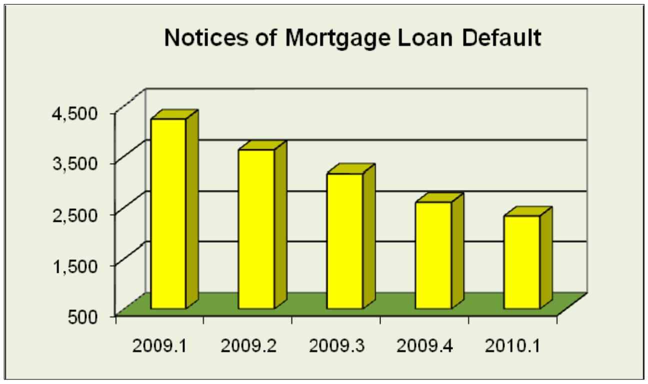
Mortgage Interest Rate - In the first quarter of 2010, the interest rate of thirty-year conventional mortgage loans increased from 4.92 percent to 4.99 percent. However, the mortgage loan interest rate has fallen 0.07 percent since the first quarter of last year.



Housing Foreclosure Activity - In the first quarter of 2010, the county's foreclosure activity slowed from 2,602 to 2,331. As a result, 271 (or 10.4 percent) fewer

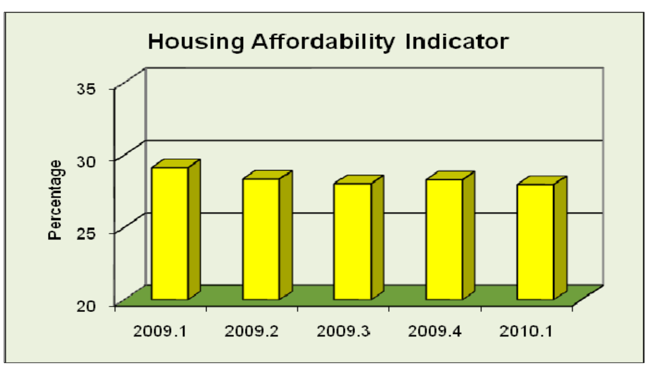
(Continued on page 19)

homeowners received notices of loan default from their mortgage bankers. Likewise, the number of default notices has gone down by 1,907 (or 45.0 percent) since the first quarter of last year.



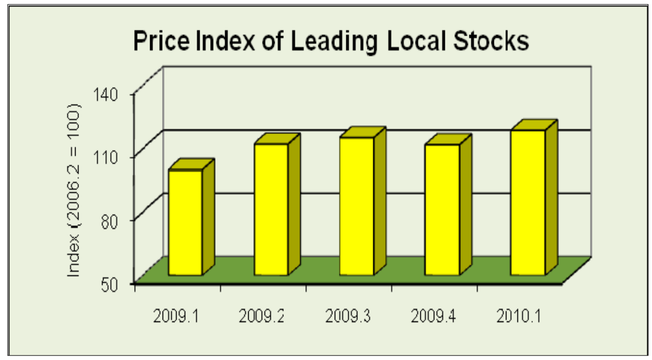
Nearly 66 percent of homeowners receiving default notices lost their homes to foreclosure. The number of homes lost to foreclosure declined from 1,777 in the fourth quarter of 2009 to 1,536 in the first quarter of 2010. As a result, 241 (or 13.6 percent) fewer homes were lost to foreclosure. However, 84 more homes were lost to foreclosure relative to the first quarter of 2009.

Housing Affordability - Falling housing prices coupled with falling household income caused the housing affordability indicator to decline from 28.3 percent in the fourth quarter of 2009 to 28.0 percent in the first quarter of 2010. Likewise, the housing affordability indicator was 1.4 percent lower this quarter than four quarters ago.

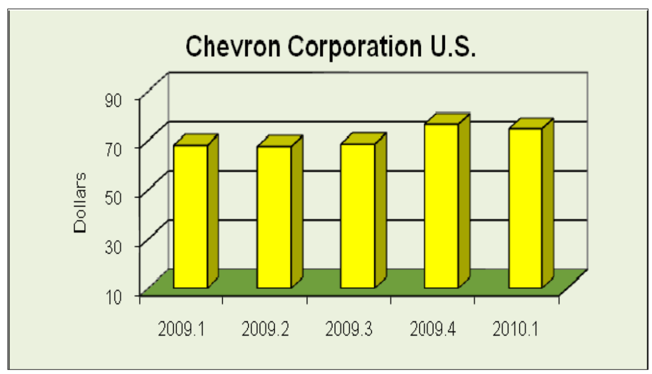


Stock Market

In the first quarter of 2010, the composite price index (2009.1 = 100) of the five locally traded stocks inclined 6.9 points from 112.0 to 118.9. The index was 18.9 points higher than that of four quarters ago. These five local *market-movers* are Chevron Corporation, Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.



Chevron Corporation US: CVX lost $1.92 (or 2.8 percent) per share as its price dropped from $76.58 in the fourth quarter of 2009 to $74.66 in the first quarter of 2010. However, CVX has gained $6.67 (or 9.8 percent) since the first quarter of 2009.

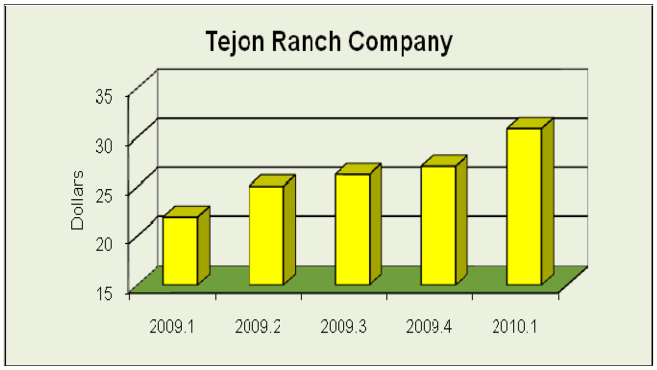


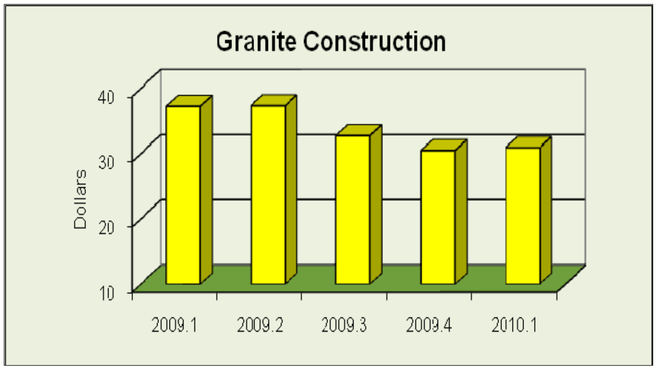
Tejon Ranch Company: TRC gained $3.81 (or 14.1 percent) per share as its stock value rose from $27.06 in the fourth quarter of 2009 to $30.87 in the first quarter of 2010. Likewise, TRC was up $9.02 (or 41.3 percent) relative to the first quarter of 2009.

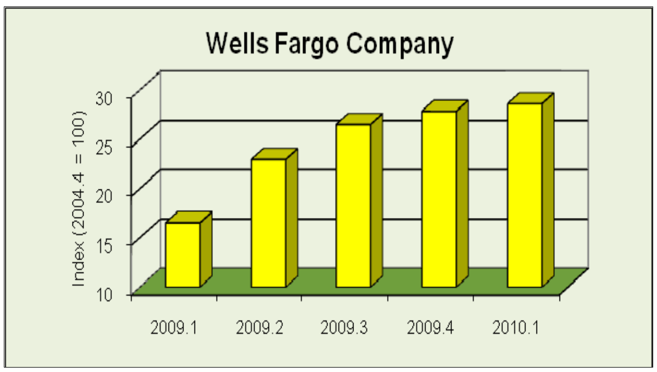
Granite Construction: GVA made 41¢ (or 1.3 percent) per share in the first quarter of 2010 as its stock price increased from $30.50 to $30.91 per share. However, GVA has gone down $6.32 (or 17.0 percent) since the first quarter of 2009.

Wells Fargo Company: WFC gained 76¢ (or 2.7 percent) per share as its stock price rose from $27.83 in the fourth quarter of 2009 to $28.59 in the first quarter of 2010. Relative to one year ago, WFC went up $12.06 (or 73.0 percent). However, WFC has gone down $1.84 (or 6.2 percent) since the fourth quarter of 2009.

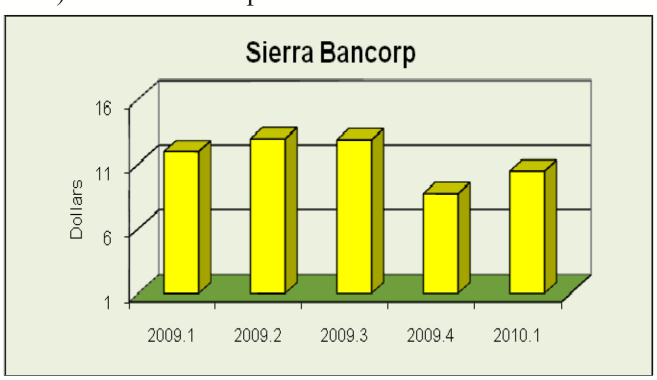
(Continued on page 20)





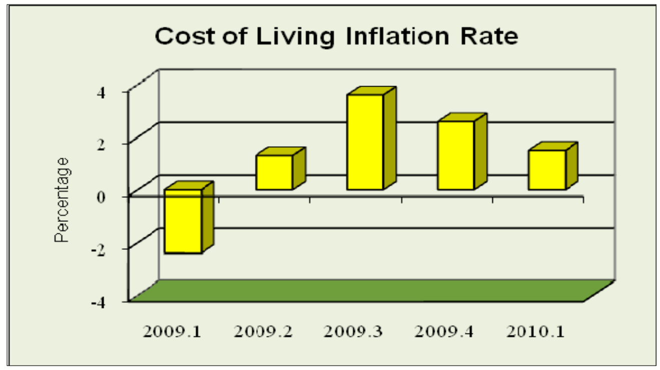


Sierra Bancorp: BSRR gained $1.73 (or 19.82 percent) per share as its price climbed from $8.73 in the fourth quarter of 2009 to $10.46 in the first quarter of 2010. Nevertheless, BSRR has gone down $1.50 (or 12.5 percent) since the first quarter of 2009.

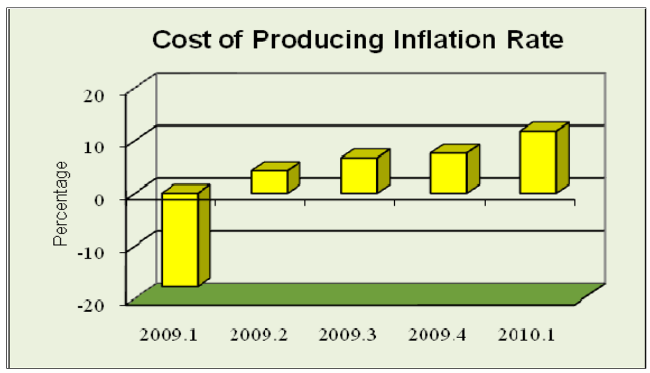


Inflation

Cost of Living - The Consumer Price Index for all urban areas (1982-84 = 100) inclined from 216.8 in the fourth quarter of 2009 to 217.6 in the first quarter of 2010. As a result, inflation for the cost of living accelerated at an annual rate of 1.5 percent. The cost of living inflation rate was 3.9 percent higher than that of four quarters ago.



Cost of Producing - The Producer Price Index for all commodities (1996 =100) climbed from 177.0 in the fourth quarter of 2009 to 182.0 in the first quarter of 2010. The inflation rate for cost of producing accelerated at an annual rate of 11.8 percent. The cost of producing inflation rate was 29.5 percent higher than that of four quarters ago.



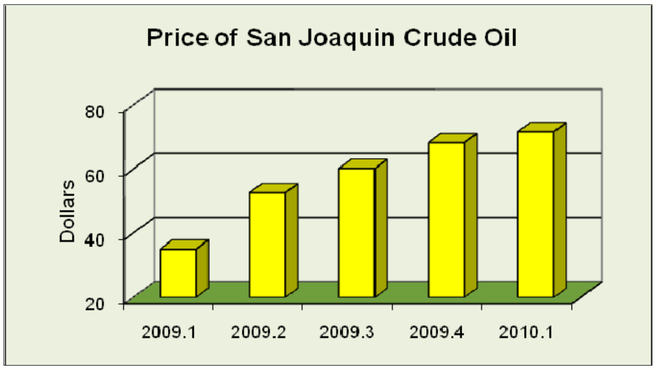
Cost of Employment - The Cost of Employment Index (December 2005 = 100) increased from 111.1 in the fourth quarter of 2009 to 111.8 in the first quarter of 2010. The cost of employment accelerated at a rate of 2.5 percent, 1.1 percent higher than that of the previous quarter, and 1.4 percent faster that that of four quarters ago.

(Continued on page 21)

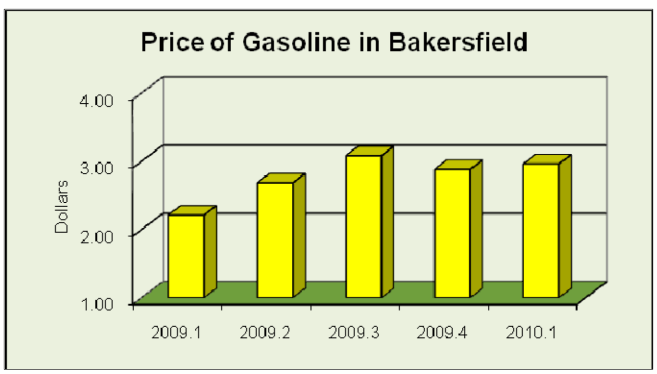
Tracking *(Continued from page 20)*

Commodity Prices

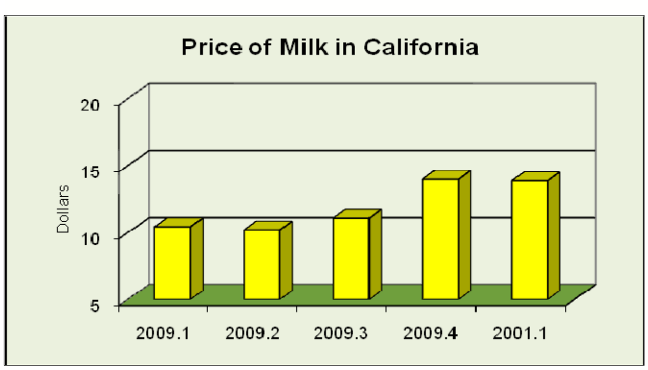
Price of Oil - The average price of San Joaquin Valley heavy crude increased $3.38 (or 5.0 percent) per barrel from $68.19 in the fourth quarter of 2009 to $71.57 in the first quarter of 2010. Likewise, the average price of crude oil was up $36.49 (or 104.0 percent) per barrel relative to the first quarter of 2009.



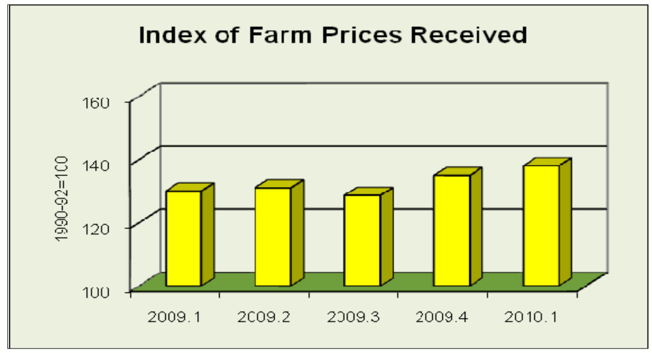
Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline rose 8¢ (or 2.8 percent) per gallon from $2.88 in the fourth quarter of 2009 to $2.96 in the first quarter of 2010. Compared with the first quarter of last year, the average gasoline price was up 75¢ (or 33.9 percent).



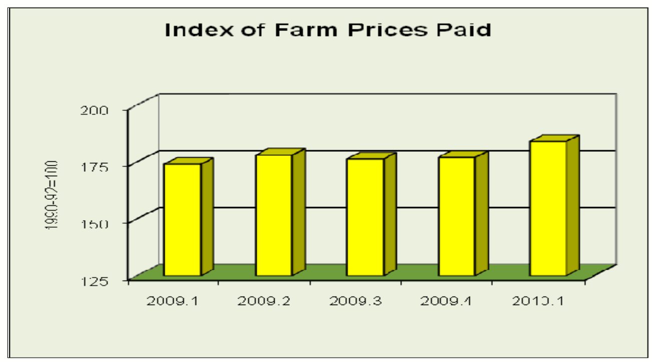
Price of Milk - The average price of California's Class III milk decreased 11¢ (or 0.8 percent) per cwt from $13.96 in the fourth quarter of 2009 to $13.85 in the first quarter of 2010. However, the unit price of milk has gone up $3.41 (or 32.7 percent) since the first quarter of 2009.



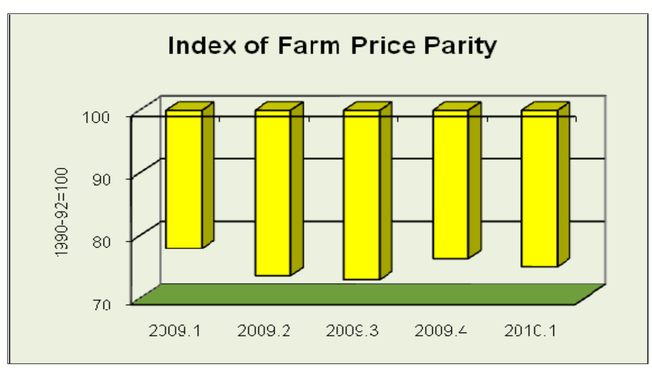
Farm Prices - In the first quarter of 2010, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) climbed 3 points to arrive at 138. Likewise, the index was 8 points higher than that of four quarters ago.



The national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents jumped 7 point to reach 184. The index value was 10 points higher than that of four quarters ago.



We measure the Index of Farm Price Parity as the Index of Prices Received by Farmers divided by the Index of Prices Paid by Farmers. In the first quarter of 2010, the Index of Farm Price Parity declined from 76 to 75. Likewise, the gap between prices farmers paid and prices farmers received has widened 3 points since the first quarter of 2009.



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