CALIFORNIA STATE UNIVERSITY, BAKERSFIELD
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION

KERN ECONOMIC JOURNAL

Volume 14 Issue 1

2012 First Quarter

Winner of the Award of Merit from the California Association for Local Economic Development

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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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.

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INSIDE THIS ISSUE:

Cover photo: *Windmills in Kern County, Photo from www.google.com*

Econ Brief!

Bakersfield No. 1 in Job Growth

David Lyman
Manager, Convention and Visitors Bureau

The Bakersfield metropolitan area had the highest rate of private-sector job growth in California during the past ten years. According to a recent analysis done by *On Numbers*, Bakersfield saw 16,900 new private-sector jobs between 2001 and 2011. The number of private-sector jobs grew from 148,600 in 2001 to 165,900 in 2011 for an increase of 11.4 percent. This rate of increase placed Bakersfield at the top of California's 11 largest metropolitan areas, and number 8 among the nation's 100 largest metropolitan areas. Among the top five metropolitan areas in the state, Bakersfield led Riverside-San Bernardino, Fresno, San Diego, and Stockton.

Private Sector Employment

CA Ranking	Metro area	2001	2011	Increase	Growth	U.S. Ranking
1	**Bakersfield**	**148,600**	**165,500**	**16,900**	**11.4%**	**8**
2	Riverside-San Bernardino	829,500	892,700	63,200	7.62%	13
3	Fresno	208,400	212,100	3,700	1.78%	36
4	San Diego	1,004,700	1,013,800	9,100	0.91%	40
5	Stockton	152,200	150,700	-1,500	-0.99%	50
6	Oxnard-Thousand Oaks	234,800	231,800	-3,000	-1.28%	55
7	Modesto	125,200	120,900	-4,300	-3.44%	74
8	Sacramento	600,800	577,400	-23,400	-3.90%	7
9	Los Angeles	4,738,100	4,433,300	-304,800	-6.43%	86
10	San Francisco-Oakland	1,799,500	1,589,600	-209,900	-11.66%	94
11	San Jose	919,100	781,100	-138,000	-15.02%	98

Note: *On Numbers* used preliminary data from the U.S. Bureau of Labor Statistics to estimate 2011's private-sector employment totals for the nation's 100 biggest metros.

Source: Bizjournals.com

Economy at a Glance!

2012 First Quarter

Abbas P. Grammy
Professor of Economics, CSUB

National Economy

Real Gross Domestic Product (GDP) increased at an annual rate of 2.2 percent in the first quarter from 3.0 percent in the previous quarter, according to the "advance" estimate released by the Bureau of Economic Analysis. The increase in real GDP reflected positive contributions from private inventory investment, personal consumption expenditures, exports, and residential fixed investment. These positive effects were partly offset by negative contributions from nonresidential fixed investment, state and local government spending, and imports.

The Index of Leading Economic Indicators – a measure of future economic activity –increased from 94.0 to 95.4, indicating continued economic growth in the near future. Likewise, the University of Michigan's Consumer Sentiment Index improved from 71.3 to 75.5.

State Economy

In California, the unemployment rate fell from 11.3 to 10.9 percent. Among the counties, San Francisco (8.1 percent), Orange (8.0 percent), San Luis Obispo (8.7 percent), Santa Clara (8.9 percent), and San Diego (9.4 percent) had unemployment rates below the state average. However, Sacramento (11.3 percent), Los Angeles (12.0 percent), Riverside (12.6 percent), and Fresno (17.1 percent) had unemployment rates above the state average.

The state's civilian labor force grew by 18,000, as 87,400 more workers gained jobs and 69,400 fewer workers were unemployed. Nonfarm industries were responsible for 65,200 more jobs and farming enterprises added 13,200 jobs. A wide range of industries added jobs: mining and logging, construction, manufacturing, wholesale trade, retail trade, information, real estate, rental and leasing, professional and business services, educational services, health-care and social assistance, accommodation and food services, and state government. Meanwhile, several industries reduced employment: transportation, warehousing and utilities, finance and insurance, arts, entertainment and recreation, federal government, and local governments.

Local Economy

In Kern County, households remained optimistic about employment and financial conditions of their families and relatives as the *Consumer Sentiment Index* scored 101. Likewise, businesses stayed confident about local employment and economic conditions as the *Business Outlook Index* stayed unchanged at 113.

In the meantime, the county's economy contracted at an annual rate of 3.1 percent. Kern's economy generated $15.43 billion in real personal income, $120 million less than the previous quarter. Falling total personal income offset by a shrinking labor force resulted in no change in personal income per worker of $40,500.

Labor market conditions deteriorated in the first quarter of 2012. The loss of 9,800 jobs consisted of 15,300 fewer farm jobs, 500 more nonfarm jobs, and 5,000 additional informal jobs. While private enterprises added 1,100 jobs, government agencies eliminated 600 jobs.

The rate of unemployment climbed from 13.3 to 15.2 percent, as 6,600 more workers were unemployed. While below the county average, the rate of unemployment averaged 10.9 percent in Bakersfield, 12.2 percent in California City, 8.9 percent in Ridgecrest, and 9.8 percent in Tehachapi.

The housing market recession continued. The county's median sales price for all residential units depreciated $4,800 (or 3.9 percent) from $123,200 to $118,400. In Bakersfield, the median housing price depreciated $3,700 (or 2.9 percent) from $129,200 to $125,500. In Kern County, 347 fewer homes were sold as total sales decreased from 2,924 to 2,577. In Bakersfield, 212 fewer homes were sold as sales of residential units declined from 2,039 to 1,827. The number of building permits issued for the construction of new privately-owned dwelling units decreased from 454 to 407. Falling housing prices and stagnant household income made the housing affordability indicator to improve to 31.9 percent from 31.1 percent.

Surprisingly, the county's foreclosure activity accelerated from 1562, to 1,641, as 79 more homeowners received notices of loan default from their mortgage bankers. However, the number of homes lost to foreclosure decreased from 1,013 to 981, when 32 fewer homes were lost to foreclosure.

(Continued on page 12)

Kern County Business Remains Confident

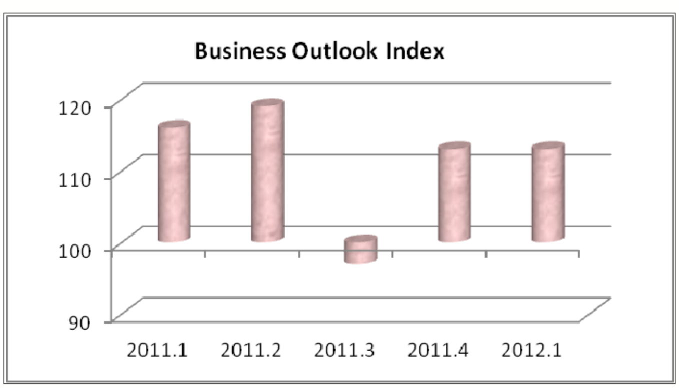
Abbas P. Grammy
Professor of Economics, CSUB

Results of the Business Outlook Survey indicate that Kern County business managers have remained optimistic about local employment and business conditions. In the first quarter (January through March) of 2012, the *Business Outlook Index* stayed constant at 113. Relative to four quarters ago, the index was down 3 points.

Comparing with the previous quarter survey, we can see signs of improved optimism. The percentage of positive responses increased from 31 to 33, and the percentage of neutral responses fell from 51 to 47. The offsetting factor, however, was the rise in the percentage of negative responses from 18 to 20.

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 indices relating to recent and future business perceptions. Compared with the previous quarter, the *Current Conditions Index* rose to 115 from 112, whereas the *Future Conditions Index* dropped to 112 from 114. These results indicate while business managers currently experience some improvements, they are cautiously optimistic about the near future.



Employment Outlook:
Forty-seven percent of interviewees reported that the number of jobs in their companies stayed constant this quarter. However, 31 percent said more jobs were available in their companies and 22 percent reported reduced employment.

Likewise, 58 percent perceived that the number of jobs would stay constant next quarter, whereas 22 percent expected their companies to hire more workers. The remaining 20 percent anticipated a smaller workforce.

Financial Outlook:
Forty-one percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter, whereas 33 percent indicated increased sales and profits and 26 percent stated reduced sales and profits.

Similarly, 52 percent expected financial conditions of their companies would remain constant next quarter. However, 29 percent anticipated increased sales and profits and 19 percent predicted reduced sales and profits.

Industry Outlook:
Forty-three percent of survey respondents perceived that employment and general business conditions of their industries remained the same as the previous quarter, while 39 percent felt these conditions improved and 18 percent indicated crumbling business conditions.

Forty-seven percent anticipated that the employment and general business conditions of their industries would stay unchanged next quarter. Yet, 36 percent expected progress and 17 percent felt otherwise.

	Current Quarter	Previous Quarter	Four Quarters Ago
Business Outlook Index	**113**	**113**	**116**
Current Conditions Index	115	112	118
Future Conditions Index	112	114	114

(Continued on page 5)

Bakersfield Consumer Sentiment Sustains Previous Quarter's Gains

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

The strong gain in consumer sentiment attained in the fourth quarter of 2011 during which the index reached the 100 barrier for the first time in four years was sustained in the first quarter of 2012. The Bakersfield Index was essentially unchanged, slipping from 102 in the previous quarter to 101. Nationally, the University of Michigan's index of consumer sentiment increased strongly from 65 in the previous quarter to 76.

The values of the national and local indexes cannot be directly compared, since they are calculated using different survey questions and formulas. What can be compared is the relative positions of each index compared to its past values. The current value of the Bakersfield Index is in the 40th percentile of readings since 1999 when we first began tabulating it. That is, the current value of 101 is better than 40 percent of past readings. Nationally, the Michigan index value of 76 is better than just 25 percent of previous values since 1999.

CSU Bakersfield compiles the Bakersfield index from telephone interviews of a random sample of households in order to help local decision makers compare national and local trends. The Bakersfield index is disaggregated into sub-indexes measuring recent conditions and future expectations. The sub-index of current trends declined, while the sub-index of future expectations strengthened.

The sub-index measuring recent financial conditions decreased from 102 to 98. While the percentage of respondents reporting they spent more than usual on discretionary items decreased from 29 to 20 percent, the percent reporting they spent less than usual also declined -- from 30 to 24 percent. There also was a minor erosion (from 32 to 28 percent) in the percent of households reporting they were doing better financially than one year ago. Assessments of how acquaintances in Kern County are doing compared to a year ago followed the same pattern. Those reporting their acquaintances were better off decreased from 26 to 21 percent of the sample. In the previous quarter, 25 percent reported they were worse off financially than one year ago; in the most current quarter, 24 percent reported being worse off.

The sub-index measuring expectations for the coming year increased from 101 to 103. While the percent of households expecting their financial situation to improve in the coming year barely changed (from 26 to 25 percent), the percent thinking their situation would worsen declined from 29 to 23 percent. Respondents reported a similar pattern of expectations for their acquaintances in Kern County. When asked if this is a safe or risky time for most people to use savings or borrow to buy expensive goods, there were both fewer bulls and fewer bears than in the previous quarter. The percent giving a neutral response increased from 38 percent in the prior quarter to 51 percent.

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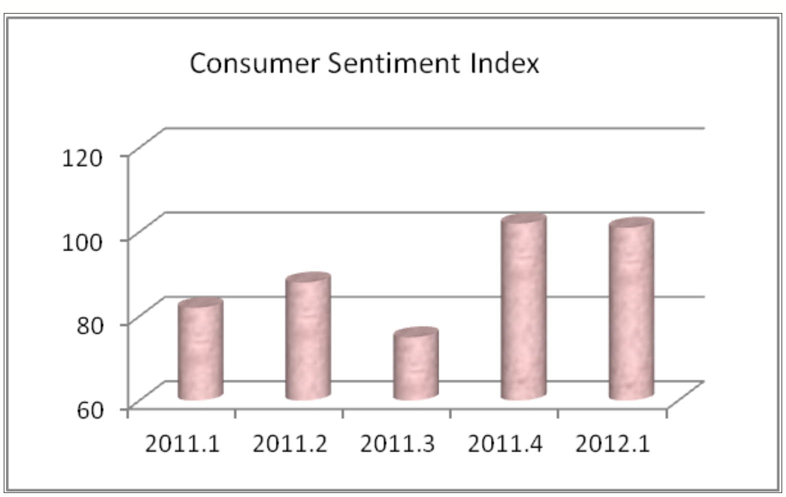


Bakersfield Consumer Sentiment *(Continued from page 4)*

Table 1: Index Values			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	**101**	**102**	**82**
Sub-index: Current Conditions	98	102	74
Sub-index: Future Expectations	103	101	90

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).	20 %	56 %	24 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	28 %	50 %	22 %
How your acquaintances in Kern County are doing financially compared to one year ago.	21%	51 %	28 %

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	25 %	52 %	23 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	28 %	50 %	22 %
	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?	25 %	51 %	24 %

Renewed Business Optimism *(Continued from page 3)*

Economic Outlook:

When asked about Kern County's economy, 43 percent of interviewees perceived no change this quarter. Nevertheless, 39 percent felt conditions improved and 18 percent said conditions worsened.

Likewise, 45 percent felt that economic conditions would remain unchanged next quarter. However, 36 percent anticipated the economy would get better and 19 percent said conditions are likely to get worse.

Factors Affecting Business Outlook:

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

- People are spending more money on discretionary items like eating out and entertainment
- Having more people employed is helping business
- Banks are more eager to finance business loans

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

- Higher gas prices are making expenses rise
- Higher taxes are cutting into profits
- California's economy is not recovering

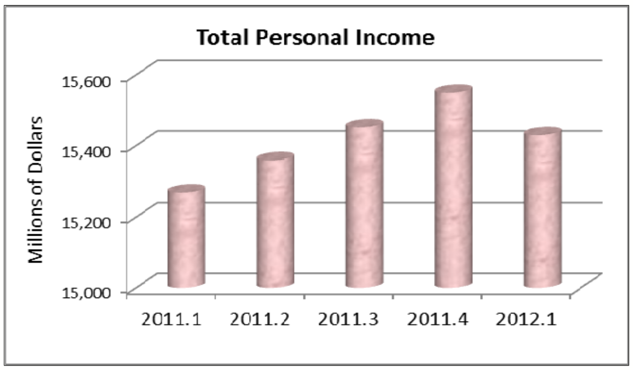
Tracking Kern's Economy[1]

2012 First Quarter

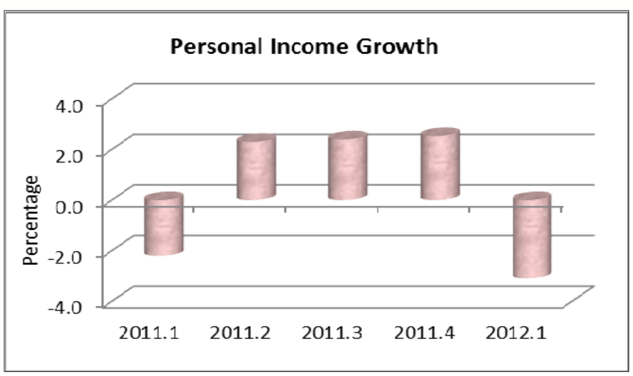
Abbas P. Grammy
Professor of Economics, CSUB

Economy

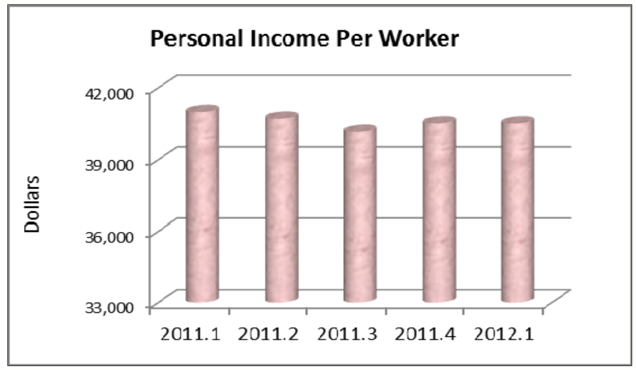
Personal Income - Kern County's total personal income (in constant 1996 dollars and adjusted for seasonal variations) decreased $120 million from $15.55 billion in the fourth quarter of 2011 to $15.43 billion in the first quarter of 2012. Loss of jobs, increased unemployment, falling housing prices, and loss of property to foreclosure contributed to the decline in total personal income.



Growth of Personal Income - The loss of $120 million in personal income is translated into an annualized growth rate of -3.1 percent in the first quarter of 2012. Kern County's economy grew 2.5 percent in the previous quarter, but declined 2.2 percent four quarters ago.



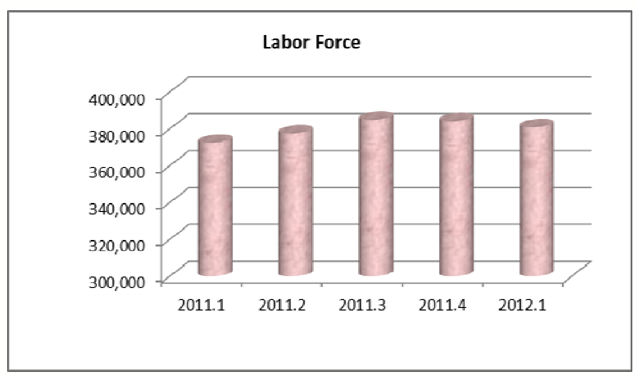
Personal Income Per Worker - Falling total personal income coupled with a shrinking labor force kept personal income per worker constant at $40,500 in the first quarter of 2012. However, personal income per worker was down $480 this quarter relative to four quarters ago.



Labor Market

We adjust published data in three ways. Firstly, we averaged monthly data to calculate quarterly data. Secondly, we recalculated quarterly data to take into account workers employed in the "informal" market (i.e., self-employed labor and those who work outside their county of residence). Finally, we adjusted quarterly data for the effects of seasonal variations.

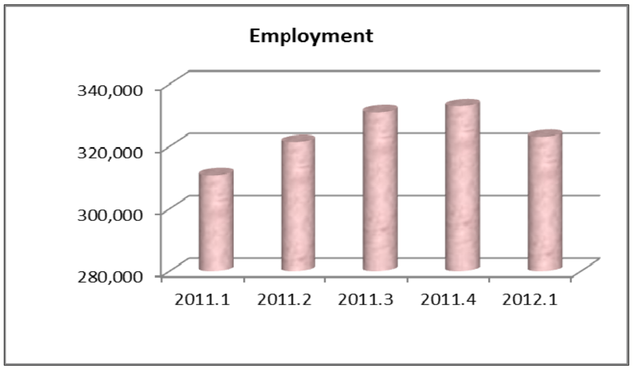
Labor Force - The civilian labor force decreased by 3,200 members from 384,080 in the fourth quarter of 2011 to 380,880 in the first quarter of 2012. However, 8,370 more workers were available for work relative to the first quarter of 2011.



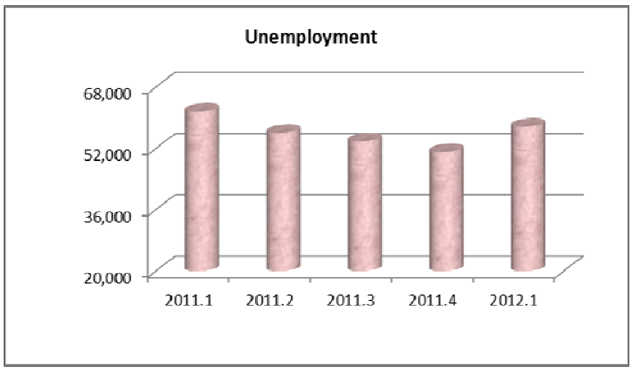
Employment - In the first quarter of 2012, Kern County's economy lost 9,800 jobs as total employment decreased from 332,950 to 323,150. Nevertheless, the county employed 12,340 more workers this quarter relative to the first quarter of last year.

(Continued on page 7)

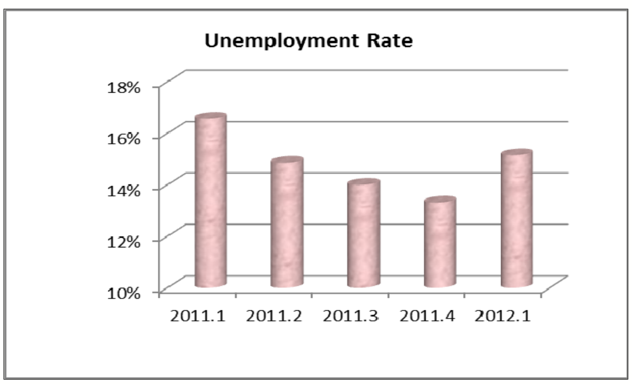
[1]Source - Online databases: labormarketinfo.edd.ca.gov, bakersfieldgasprices.com, dqnews.com, economagic.com, bea.gov, bls.com, gpoaccess.gov, dairy.nu, msn.com, census.gov, kerndata.com, and bry.com



Unemployment - The number of jobless workers increased by 6,600 as total unemployment climbed from 51,130 in the fourth quarter of 2011 to 57,730 in the first quarter of 2012. However, 3,970 fewer workers were unemployed this quarter than four quarters ago.



Unemployment Rate - In the meantime, the rate of unemployment jumped 1.9 percent from 13.3 percent to 15.2 percent. Kern County's unemployment rate was 16.6 percent four quarters ago.



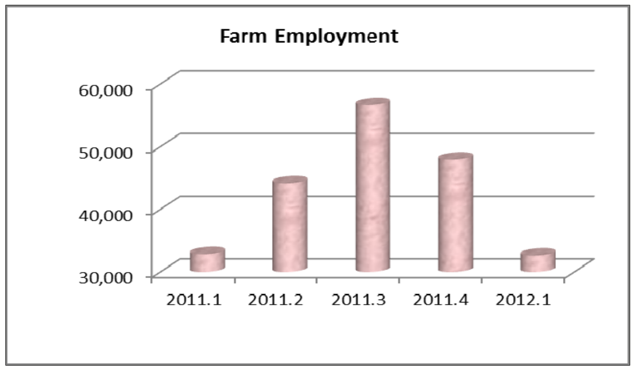
The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate varied between 8.9 percent in Ridgecrest and 38.3 percent in Arvin. In Bakersfield, the rate of unemployment was 10.9 percent.

Unemployment Rate of Cities

Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Ridgecrest	8.9	Mojave	17.2
Tehachapi	9.8	Lake Isabella	18.2
Bakersfield	10.9	Shafter	26.7
California City	12.2	Lamont	26.9
Rosamond	8.9	Wasco	27.7
Frazier Park	13.6	McFarland	30.9
Taft	15.2	Delano	37.0
Oildale	16.3	Arvin	38.3

Note: City-level data are not adjusted for seasonality and "informal" market workers.

Farm Employment - In the first quarter of 2012, Kern County employed 15,300 fewer farm workers. Farm employment decreased from 47,940 to 32,640. Likewise, the farming industry hired 230 fewer workers this quarter than four quarters ago.



Nonfarm Employment - Local nonfarm industries employed 500 more workers this quarter. The number of nonfarm jobs increased from 243,240 in the fourth quarter of 2011 to 243,740 in the first quarter of 2012. Similarly, nonfarm industries employed 8,070 more workers this quarter than four quarters ago.

Several nonfarm industries added job: construction, manufacturing, information, professional and business services, health-care and social assistance, and leisure and hospitality. However, jobs were lost in mining, retail trade, transportation, warehousing and utilities, and federal, state, and local governments.

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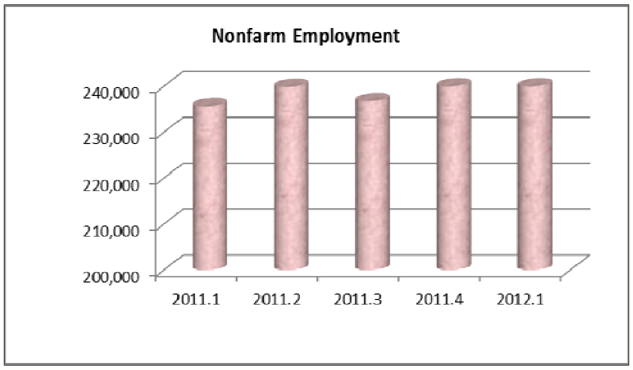
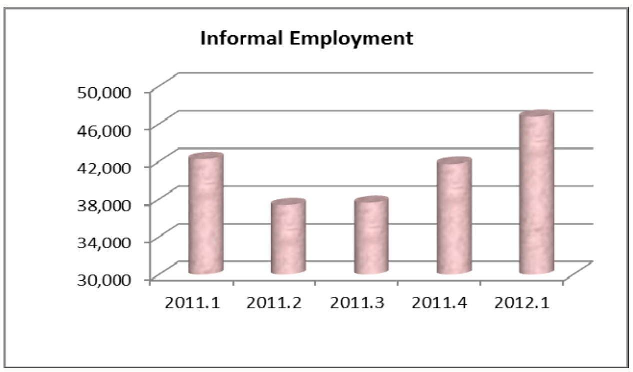
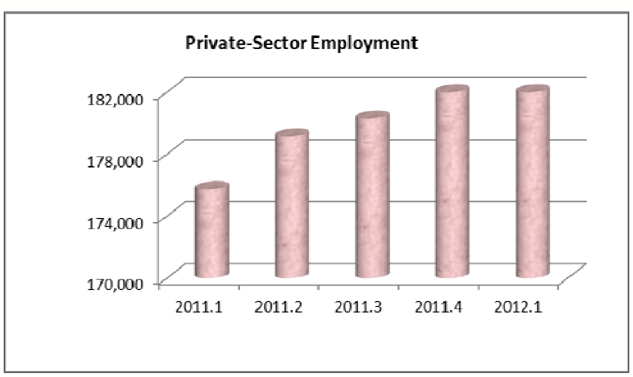


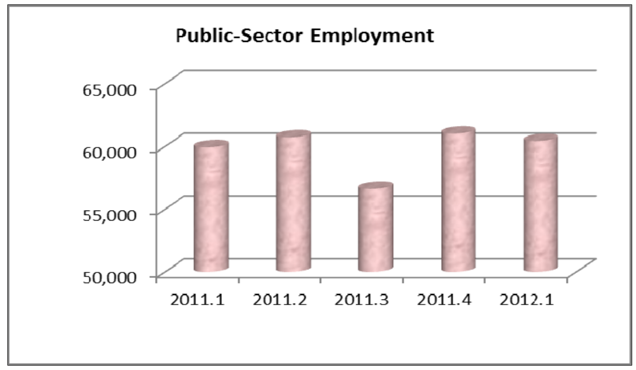
Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those who work outside their county of residence. In the first quarter of 2012, the number of informal workers increased by 5,000 from 41,770 to 46,770. Likewise, the informal labor market offered 4,500 more jobs this quarter relative to the fourth quarter of last year.



Private-sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the first quarter of 2012, private companies added 1,100 jobs as their employment increased from 182,210 to 183,310. Relative to four quarters ago, the private sector offered 7,570 more jobs.

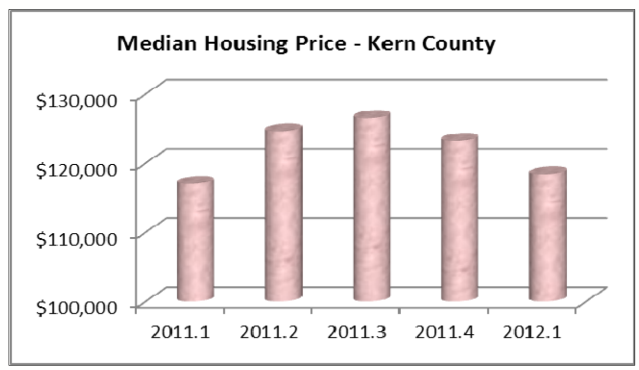


Public-sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the first quarter of 2012, government agencies dropped 600 jobs as their employment decreased from 61,030 to 60,430. Jobs were cut in public education, county and city governments, and special districts plus Indian tribes. Relative to four quarters ago, the public sector employed 500 more workers.

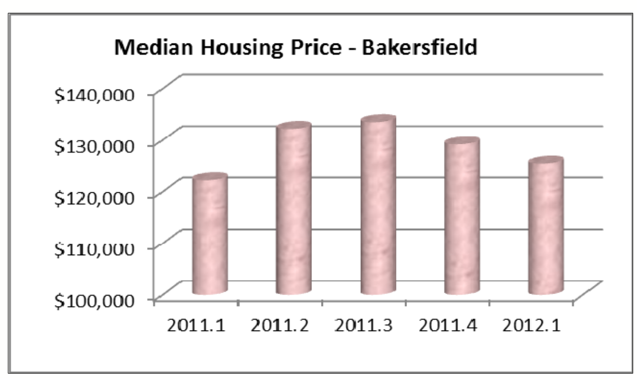


Housing Market

Housing Price - In the first quarter of 2012, Kern County's housing market conditions deteriorated. The median sales price for all residential units depreciated $4,800 (or 3.9 percent) from $123,200 to $118,400. Still, the county's median housing price was $1,400 (or 1.2 percent) higher than that of four quarters ago.



In Bakersfield, the median housing price depreciated $3,700 (or 2.9 percent) from $129,200 to $125,500. However, the city's median housing price was $3,300 (or 2.7 percent) higher than that of four quarters ago.



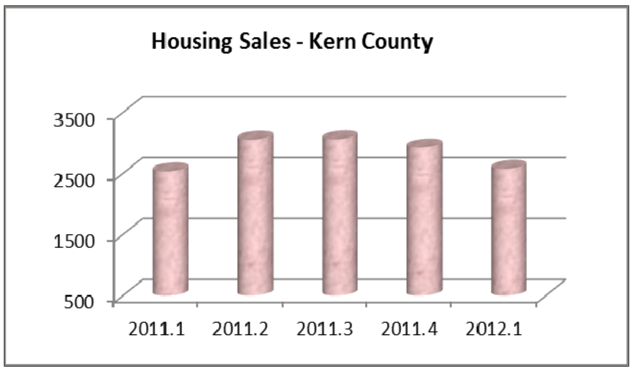
Housing price changes varied across the county. Among selected locations shown on the next page, the median sales price appreciated in Delano and Taft. The median

(Continued on page 9)

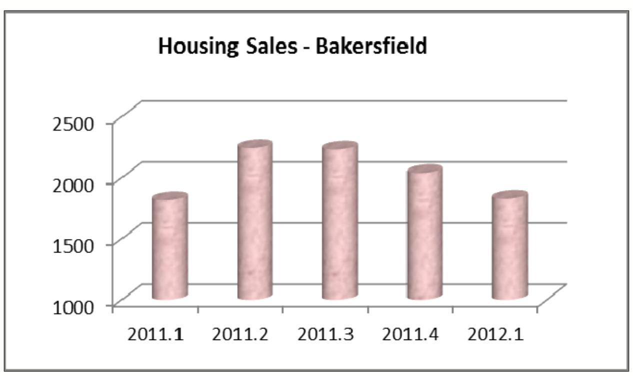
housing price depreciated in Bakersfield, California City, Ridgecrest, Rosamond, and Tehachapi.

Location	Median Price 2011.4	Median Price 2012.1	Price Change 2011.3 to 2011.4	Price Change 2011.3-2011.4
Kern County	$123,200	$118,400	-$4,800	-3.9%
Bakersfield	$129,200	$125,500	-$3,700	-2.9%
California City	$69,500	$56,800	-$12,700	-18.3%
Delano	$123,300	$131,300	$8,000	6.5%
Ridgecrest	$157,200	$141,000	-$16,200	-10.3%
Rosamond	$111,300	$108,400	-$2,900	-2.6%
Taft	$50,400	$61,400	$11,000	21.8%
Tehachapi	$137,250	$134,500	-$2,750	-2.0%

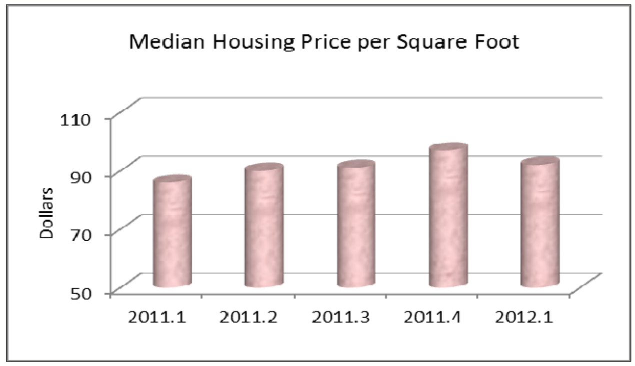
Housing Sales - In Kern County, 347 fewer homes were sold as total sales decreased from 2,924 in the fourth quarter of 2011 to 2,577 in the first quarter of 2012. However, 43 more units were sold this quarter relative to the first quarter of last year.



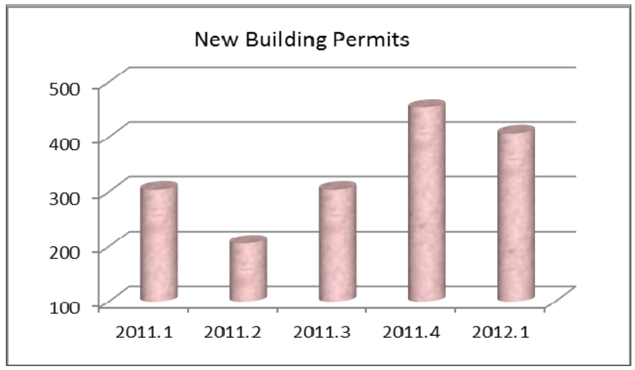
In Bakersfield, 212 fewer homes were sold as sales of residential units declined from 2,039 in the fourth quarter of 2011 to 1,827 in the first quarter of 2012. Nevertheless, sales were up by 12 units this quarter relative to the first quarter of last year.



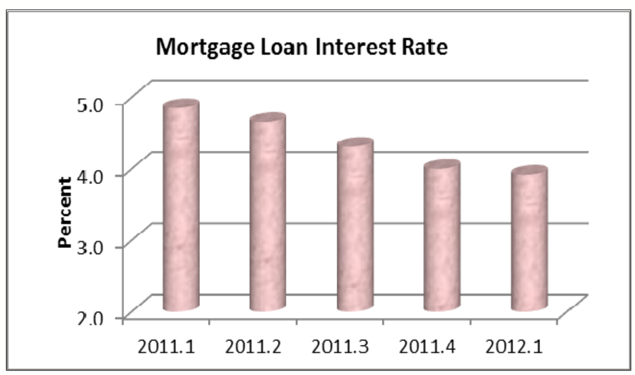
Median Housing Price per Square Foot - The median sales price per square foot of housing area declined $5 from $97 in the fourth quarter of 2011 to $92 in the first quarter of 2012. However, the median housing price per square foot has gone up $6 since the first quarter of last year.



New Building Permits - In the first quarter of 2012, Kern County issued 47 fewer building permits for construction of new privately-owned dwelling units. The number of permits decreased from 454 to 407. Nevertheless, 103 more building permits were issued this quarter relative to four quarters ago.



Mortgage Interest Rate - In the first quarter of 2012, the interest rate of thirty-year conventional mortgage loans decreased from 4.00 to 3.92 percent. Four quarters ago, mortgage loan interest rate was 4.85 percent.



Housing Foreclosure Activity - In the first quarter of 2012, the county's foreclosure activity increased from 1,562 to 1,641. As a result, 79 more homeowners received notices of loan default from their mortgage bankers. However, the number of default notices has gone down by 224 since the first quarter of last year.

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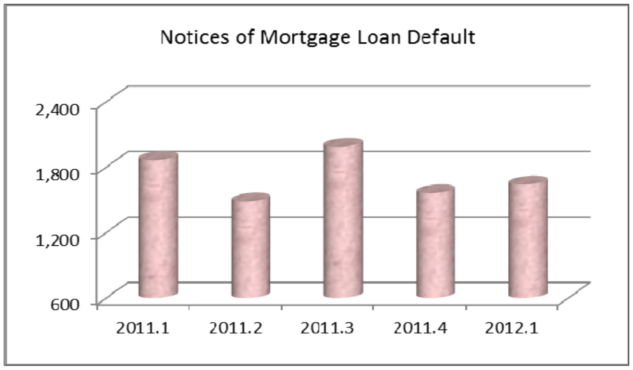
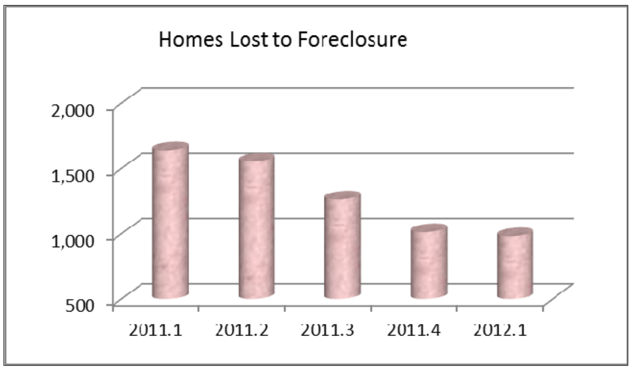
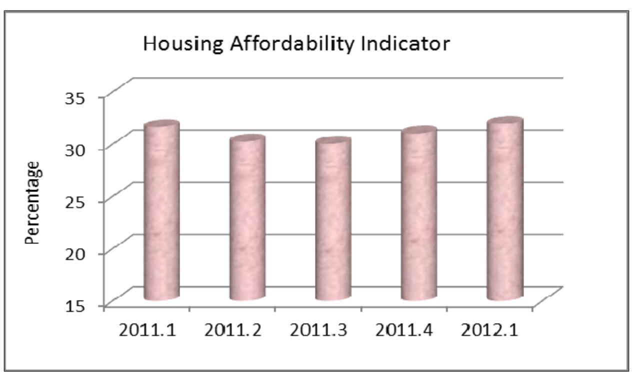


The number of homes lost to foreclosure decreased from 1,013 in the fourth quarter of 2011 to 981 in the first quarter of 2012. As a result, 32 fewer homes were lost to foreclosure. Similarly, 659 fewer homes were lost to foreclosure relative the first quarter of 2011.

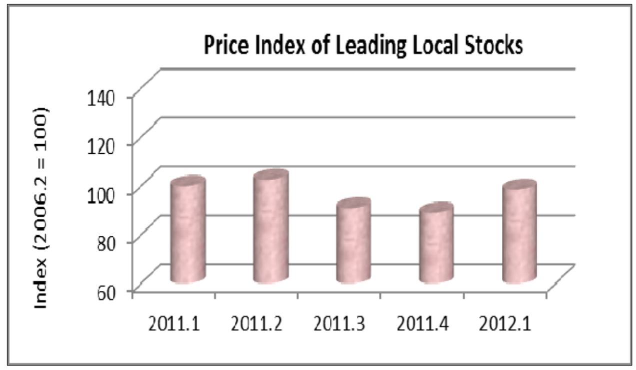


Housing Affordability - Median housing prices divided by median household income is a measure of housing affordability. With depreciation of housing prices and slow growth of household income, the affordability indicator inclined from 31.1 percent in the fourth of 2011 quarter to 31.9 percent in the first quarter of 2012. The housing affordability indicator was 31.6 percent four quarters ago.

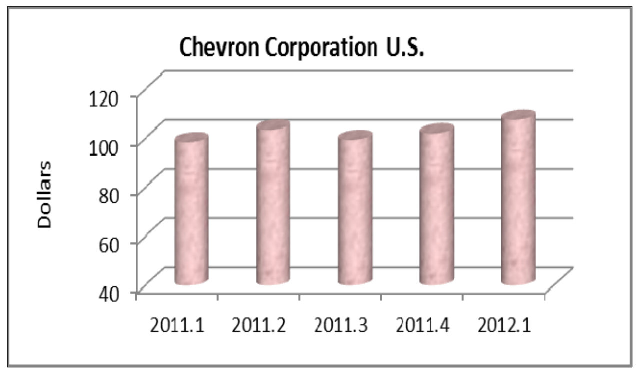


Stock Market

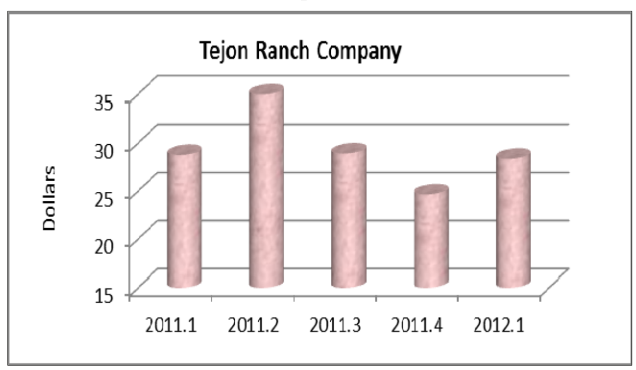
In the first quarter of 2012, the composite price index (2011.1 = 100) of the five publically traded companies doing business in Kern County increased 9.5 points from 89.1 to 98.6. The index was slightly higher than that of four quarters ago. Average "close" prices were measured for five local *market-movers*: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.



Chevron Corporation US - CVX gained $5.60 (or 5.5 percent) per share as its price rose from $102.00 in the fourth quarter of 2011 to $107.60 in the first quarter of 2012. Relative to the first quarter of 2011, CVX has gained $9.21 (or 9.4 percent).



Tejon Ranch Company - TRC gained $3.72 (or 15.1 percent) per share as its stock price increased from $24.65 in the fourth quarter of 2011 to $28.37 in the first quarter of 2012. Yet, TRC was down 40¢ (or 1.4 percent) relative to the first quarter of 2011.



Granite Construction - GVA made $4.49 (or 19.4 percent) per share in the first quarter of 2012 as its stock price increased from $23.16 to $27.65. Likewise, GVA has gone up 43¢ (or 1.6 percent) since the first quarter of 2011.

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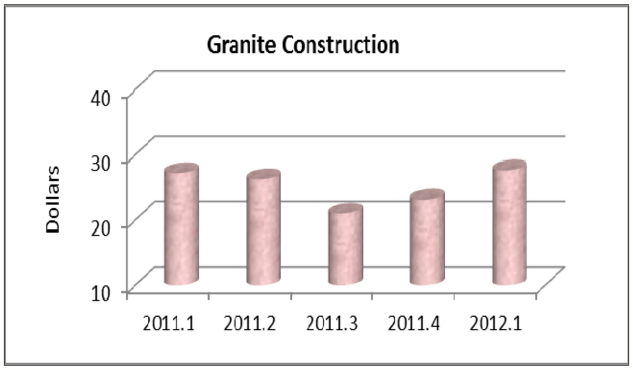
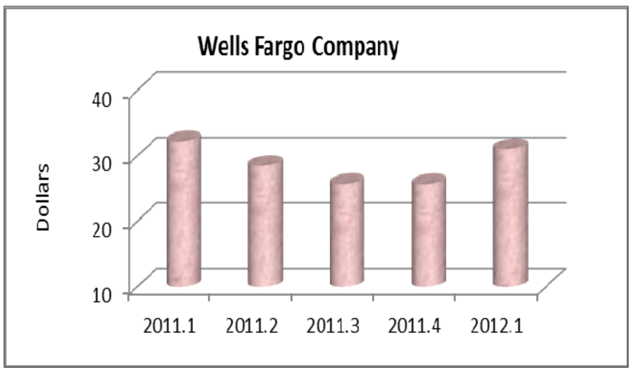
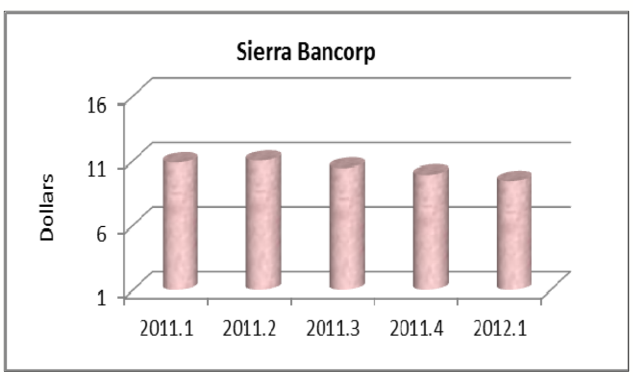


Wells Fargo Company - WFC gained 5.36 (or 20.8 percent) per share as its stock price ascended from $25.72 in the fourth quarter of 2011 to $31.08 in the first quarter of 2012. Relative to one year ago, WFC was down $1.17 (or 3.6 percent).

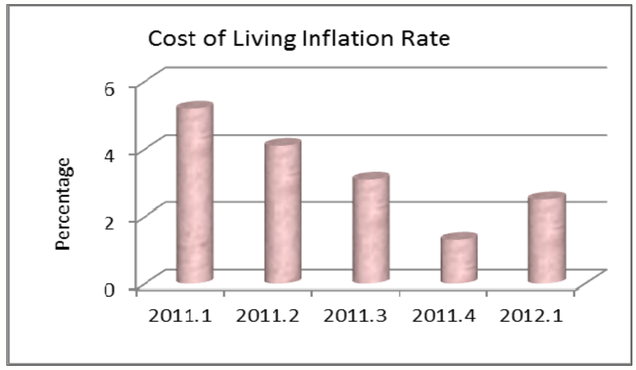


Sierra Bancorp - BSRR lost 48¢ (or 4.8 percent) per share as its price declined from $9.92 in the fourth quarter of 2011 to $9.44 in the first quarter of 2012. Likewise, BSRR has gone down $1.43 (or 13.2 percent) since the first quarter of 2011.

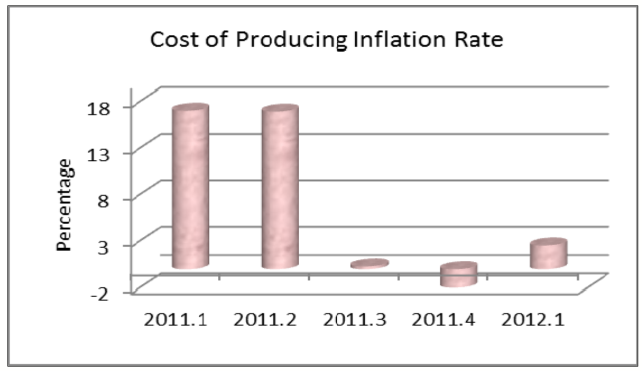


Inflation

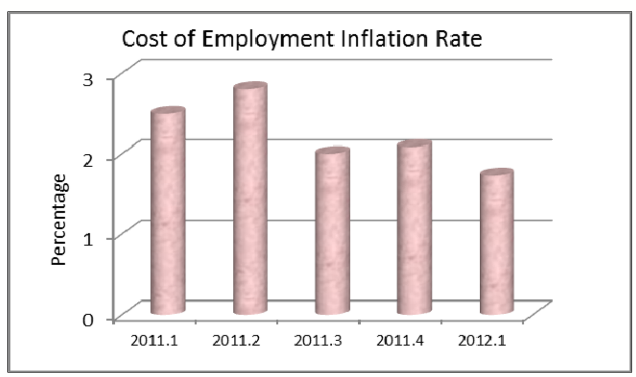
Cost of Living - The Consumer Price Index for all urban areas (1982-84 = 100) inclined from 226.9 in the fourth quarter of 2011 to 228.3 in the first quarter of 2012. As a result, inflation for the cost of living accelerated at an annual rate of 2.5 percent. The cost of living inflation rate was 1.3 percent last quarter and 5.2 percent four quarters ago.



Cost of Producing - The Producer Price Index for finished commodities (1996 =100) increased from 200.9 in the fourth quarter 2011 to 202.2 in the first quarter of 2012. The inflation rate for the cost of producing accelerated at an annual rate of 2.5 percent. The cost of producing inflation rate was -1.2 percent last quarter and 17.0 percent four quarters ago.



Cost of Employment - The Cost of Employment Index (December 2005 = 100) increased from 115.7 in the fourth quarter of 2011 to 116.2 in the first quarter of 2012. The cost of employment inclined at an annual rate of 1.6 percent. The cost of employment inflation rate was 2.1 percent last quarter and 2.5 percent four quarters ago.



Commodity Prices

Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline increased 24¢ (or 6.5 percent) per gallon from $3.71 in the fourth quarter of 2011 to $3.95 in the first quarter of 2012. Com-

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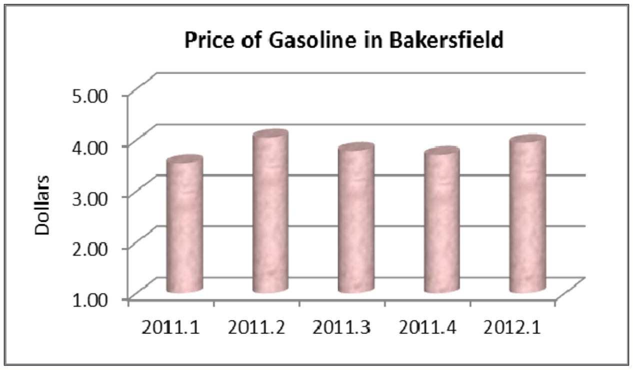
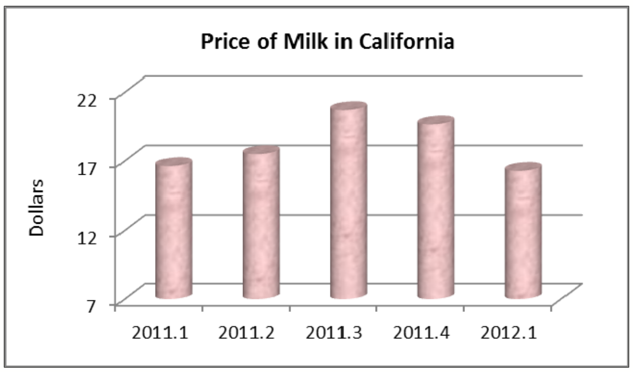
pared with the first quarter of last year, the average gasoline price was up 40¢ (or 11.3 percent).

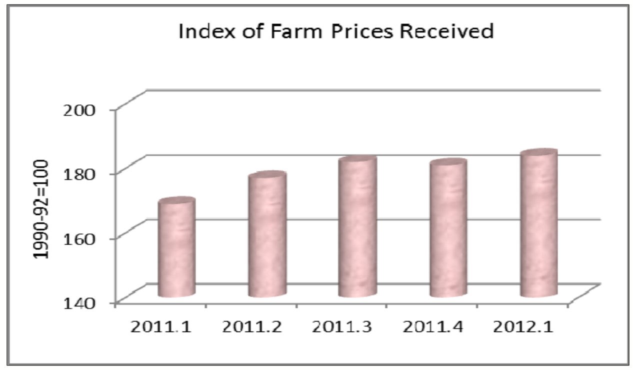


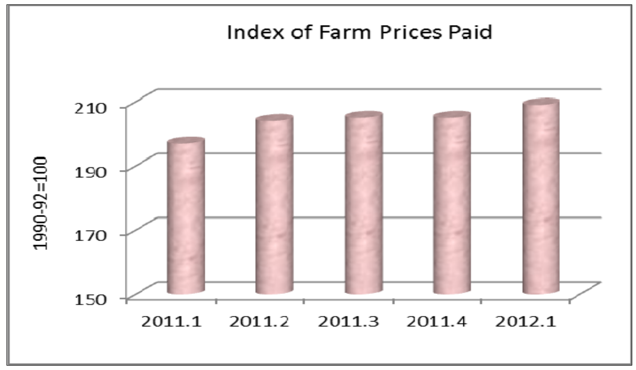
Price of Milk - The unit price of California's Class III milk decreased $3.39 (or 17.2 percent) from $19.67 in the fourth quarter of 2011 to $16.28 in the first quarter of 2012. Likewise, the unit price of milk has gone down 35¢ (or 2.1 percent) since the first quarter of 2011.



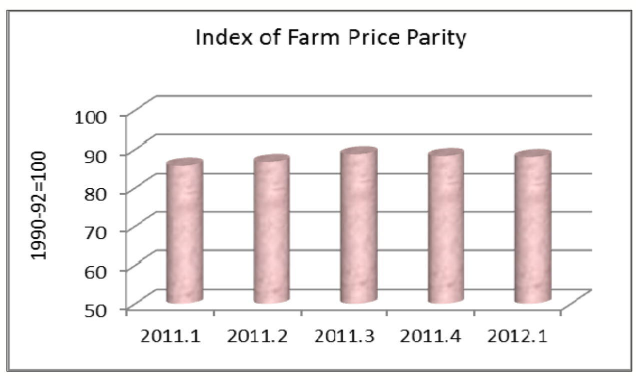
Farm Prices - In the first quarter of 2012, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) increased 3 points to arrive at 184. The index was 15 points higher than that of four quarters ago.

The national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents climbed 4 points to reach 209. The index value was 12 points higher than that of four quarters ago.





We measure the Index of Farm Price Parity as the ratio Index of Prices Received to the Index of Prices Paid. In the first quarter of 2012, the gap between prices paid and prices received did not change, as Index of Farm Price Parity remained constant at 88. However, the gap between prices farmers paid and prices farmers received has narrowed 2 points since the first quarter of 2011.



At a Glance *(Continued from page 2)*

In the Bakersfield metropolitan area, the average retail price of regular gasoline increased 24¢ from $3.71 to $3.95 per gallon. The unit price of California's Class III milk decreased $3.39 from $18.62 to $16.28. The index of prices farmers received for their outputs rose 3 points to reach 184, and the index of prices farmers paid for their inputs went up 4 points to arrive at 209. Meanwhile, the parity between output prices farmers received and input prices farmers paid stayed constant at 88.

The composite price index (2011.1 = 100) of the top five locally traded stocks improved 9.5 points from 89.1 to 98.6. In the fist quarter of this year, the average stock prices improved for Chevron Corporation, Granite Construction, Tejon Ranch Company, and Wells Fargo.

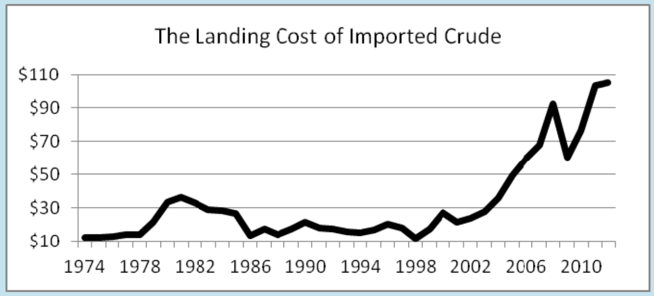
Econ Brief!

Oil Prices Have No Place To Go, But Up

The United States consumes more oil than any other country in the world. It consumes nearly 19 million barrels of oil per day of which 9 to 12 million barrels are imported. The United States pays its seven major crude oil suppliers more than $140 billion every year[1].

Canada is the major supplier of oil to the United States for more than 1.9 million barrels per day and earns $37 billion per year. Mexico sends nearly 1.1 million barrels of oil per day to the United States and makes more than $22 billion a year. Saudi Arabia's oil exports to the United States are close to 1.0 million barrels per day; it earns $200 billion annually. Despite ideological difference, Venezuela is the fourth largest supplier of oil to the United States for over 965,000 barrels a day for more than $19 billion per year. The remaining major suppliers are Nigeria (771,000 barrels), Angola (449,000 barrels), and Iraq (448,000 barrels)[2].

Oil prices have had volatile, rising trends. The landed cost[3] of crude oil tripled from $12.28 in 1974 to $36.41 in 1981. It then plunged to $13.79 in 1986. While fluctuating, the oil price remained under $22.00 until 2000, when a sharp rising trend began. The landed cost of imported crude brook the century mark in 2011, reaching $102.90. So far in the first three months of 2012, the average oil price has climbed to a record high of $104.56 per barrel[4].



Oil price hikes do not directly relate to a supply-demand imbalance. With the market tight but balanced, Saudi Arabia's oil minister sees no rational reason that oil prices are continuing to remain at these high levels[5]. Indeed, oil traded in future markets carries a substantial "risk-premium." This risk premium originates from growing militancy in the Middle East, North African, and West Africa.

In particular, volatile geopolitics contributing to rising oil prices include danger of al-Qaeda terrorism, unwinnable wars in Iraq and Afghanistan, popular uprising in Egypt, revolutionary change in Libya, continued state violence in Syria, oil war in Nigeria, and the threat that Israel and/or the United States could eventually opt for a military strike against Iran's nuclear plants. Recently, the United States navy has moved three aircraft carriers into the Arabian Sea to secure the strategically important Strait of Hormuz, where 20 percent of world's oil exports passes through. Rising geopolitical tension in the region and concerns about replacing Iran's oil supply help keep oil prices at historically high levels.

Oil is a commodity traded internationally, whose prices set by the global market. By and large, some of the oil price hikes result from a rising demand. Excessive consumption in the United States and Europe and rapid industrialization in China and India help keep oil prices high. The United States, accounting for about 20 percent of the global demand and 9 percent of the global supply, is a "price-taker" in such a volatile oil market. While drilling for new oil would help increase the supply in the long run, the best way to reduce dependence on imported oil is demand-side conservation and alternative-energy development. Availability of fuel-efficient mass transit systems and investment in the advancement of non-polluting alternative energy sources help relive the demand-side pressures. Nonetheless, the key to reaching supply-demand based pricing is political stability in oil exporting countries. The end of wars in Iraq and Afghanistan and peaceful resolution of Iran's nuclear program would help stabilize the market.

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[1]"Top 7 suppliers of Oil to the US," globalpost, July 28, 2010, http://www.globalpost.com/dispatch/100726/top-7-us-oil-importers
[2]Ibid.
[3]The cost of oil off-loaded at a port, including duties fees and taxes.
[4]Data source: www.economagic.com
[5]"Top 7 suppliers of Oil to the US"

Premier Thoughts:

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