

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



KERN ECONOMIC JOURNAL

2013 First Quarter

Volume 15 Issue 1

*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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Econ Brief!

Bakersfield-Delano: A High Paying Metropolitan Area

David Lyman
Manager, Convention and Visitor Bureau

The Bakersfield-Delano metropolitan area¹ is the second highest-paying area in the Central Valley, according to an analysis of newly released compensation data for 816 occupations.

The business blog *On Numbers* examined data from the U.S. Bureau of Labor Statistics, which produces annual wage estimates for more than 800 individual occupations. Below are the average annual pay levels for all employees within the five Central Valley metropolitan areas, along these areas' rankings among the nation's 104 major markets. These figures indicate the average salaries for all workers in all lines of work, taken collectively. The highest paying counties in the Central Valley are:

Sacramento (12): \$51,620
Bakersfield (51): \$44,150
Stockton (56): \$43,470
Modesto (60): \$42,930
Fresno (77): \$41,200

For a complete listing of all 104 major metros nationwide: <http://www.bizjournals.com/bizjournals/on-numbers/scott-thomas/2013/04/here-are-the-highest-paying-markets.html?page=all>

¹The Bakersfield-Delano metropolitan area includes all of Kern County.

ECONOMY AT A GLANCE!

2013 FIRST QUARTER

ABBAS P. GRAMMY

National Economy

The Gross Domestic Product (GDP) increased at an annual rate of 2.5 percent in the first quarter of 2013 from 0.4 percent in the fourth quarter of 2012, according to the "advance" estimate released by the Bureau of Economic Analysis. The increase in real GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures, private inventory investment, exports, residential investment, and nonresidential fixed investment. These positive effects were partly offset by negative contributions from federal government spending, state and local government spending and imports.

State Economy

In California, the unemployment rate fell from 9.9 to 9.6 percent. Among the counties, Orange (5.7 percent), San Francisco (6.4 percent), San Luis Obispo (7.1 percent), Santa Clara (7.5 percent), and San Diego (8.1 percent) had unemployment rates below the state average. However, Sacramento (9.7 percent), Los Angeles (10.4 percent), Riverside (11.0 percent), and Fresno (15.4 percent) had unemployment rates above the state average.

The state's civilian labor force added 84,700 members. Meanwhile, 134,200 more workers gained jobs and 49,500 fewer workers were unemployed. Nonfarm industries were responsible for hiring 50,200 more workers and farming enterprises added 21,400 to their labor force. A wide range of industries added jobs: mining and logging, construction, wholesale trade, professional and business services, finance and insurance, leisure and hospitality, health-care and social assistance, and local government. However, the bulk of job losses occurred in manufacturing, retail trade, real estate and rental and leasing, information, educational services, federal and state government, and other services.

Local Economy

In Kern County, households became less pessimistic about employment and financial conditions of their families and relatives as the *Consumer Sentiment Index* increased from 92 to 98. Meanwhile, local businesses became more optimistic about local employment and economic conditions as the *Business Outlook Index* climbed from 112 to 120.

In the meantime, the county's economy contracted at an annual rate of 2.4 percent. Kern's economy generated \$15.61 billion in real personal income, \$90 million less than the previous quarter. This fall in total personal income coupled with a larger decline in the labor force made personal income per worker to increase \$650 to reach \$41,750.

Labor market conditions remained sluggish in the first quarter of 2013. The county hired 13,460 fewer workers. The farming industry cut 18,260 jobs and nonfarm enterprises hired 3,000 fewer workers. Private enterprises employed 2,570 fewer workers and government agencies offered jobs to 430 fewer laborers. The rate of unemployment climbed from 12.5 to 14.2 percent. While below the county average, the rate of unemployment was 8.3 percent in Ridgecrest, 8.6 percent in Tehachapi, 9.5 percent in Bakersfield, and 10.7 percent in California City.

Housing market conditions improved. The county's median sales price for all residential units appreciated \$5,100 (or 3.4 percent) from \$147,900 to \$153,000. In Bakersfield, the median housing price appreciated \$11,600 (or 7.2 percent) from \$161,100 to \$172,700. In Kern County, 361 fewer homes were sold as total sales decreased from 2,935 to 2,574. In Bakersfield, 251 fewer homes were sold as sales of residential units declined from 2,111 to 1,860. The number of building permits issued for the construction of new privately-owned dwelling units increased from 302 to 377. The housing affordability indicator fell from 27.7 to 26.5 percent. The county's foreclosure activity slowed from 1,082 to 503 as 579 fewer homeowners received notices of loan default from their mortgage bankers. Similarly, 242 fewer homes were lost to foreclosure as the number of homes lost decreased from 744 to 502.

In the Bakersfield metropolitan area, the average retail price of regular unleaded gasoline increased 2¢ from \$3.93 to \$3.95 per gallon. The unit price of California's Class III milk decreased \$2.73 from \$20.17 to \$17.44. The index of prices farmers received for their outputs remained unchanged at 205, while the index of prices farmers paid for their inputs went up 2 point to arrive at 220. As a result, the gap between output prices farmers

(Continued on page 12)

BUSINESS OUTLOOK BRIGHTENS IN FIRST QUARTER



ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

Results of the Business Outlook Survey indicate that Kern County business managers are more optimistic about local employment and business conditions. In the first quarter (January through March) of 2013, the *Business Outlook Index* climbed to 120 from 112. Four quarters ago, the index stood at 113.

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* increased to 115 from 114. Likewise, the *Future Conditions Index* improved to 126 from 111. These results indicate that business managers are more optimistic about both current and future conditions.

Compared with the previous quarter survey, the percentage of "positive" responses rose to 35 from 30. Meanwhile, the percentage of "negative" responses dropped to 14 from 18 and the percentage of "neutral" responses fell to 51 from 52.

Employment Outlook:

Sixty-one percent of interviewees reported that the number of jobs in their companies stayed constant this quarter. However, 26 percent said more jobs were available in their companies and 13 percent reported reduced employment.

Likewise, 65 percent perceived that the number of jobs would stay constant next quarter, whereas 21 percent expected their companies to hire more workers. The remaining 14 percent anticipated a smaller workforce.

Financial Outlook:

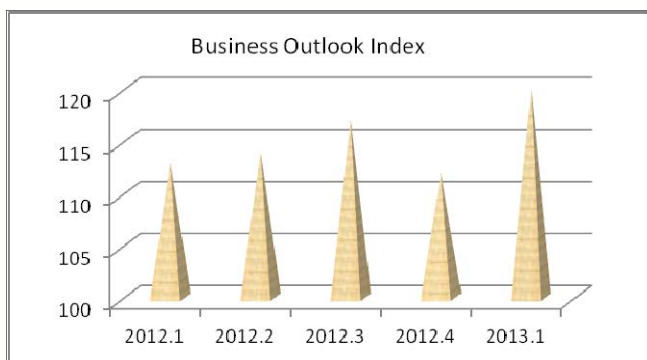
Forty-five percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter. Twenty-nine percent indicated increased sales and profits, whereas 26 percent stated reduced sales and profits.

Similarly, 57 percent expected financial conditions of their companies would remain constant next quarter. However, 36 percent anticipated increased sales and profits and 7 percent predicted reduced sales and profits.

Industry Outlook:

Forty-six percent of survey respondents perceived that employment and general business conditions of their industries remained the same as the previous quarter, while 34 percent felt these conditions improved and 20 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, 43 percent expected progress and 10 percent felt otherwise.



	Current Quarter	Previous Quarter	Four Quarters Ago
Business Outlook Index	120	112	113
Current Conditions Index	115	114	115
Future Conditions Index	126	111	112

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CONSUMER SENTIMENT REBOUNDS TO FIRST QUARTER

MARK EVANS

PROFESSOR AND CHAIR OF ECONOMICS , CSUB



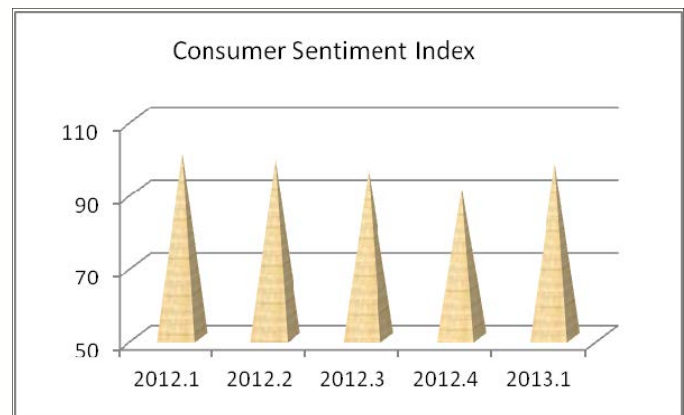
Bakersfield Consumer Sentiment rebounded in the first quarter of 2013 after four consecutive quarters of modest decline. The CSUB index increased to 98 from 92 in the final quarter of 2012 when sequestration fears peaked. The reading of 98 is slightly below the post-recession high of 102 that occurred in the first quarter of 2012.

Nationally, the Thomson Reuters/University of Michigan Consumer Sentiment Index slipped from an average reading of 79 in fourth quarter, 2012 to 77 in first quarter, 2013. However, the national reading improved each month of the quarter - from 72.9 in December to 73.8, 77.6, and 78.6, respectively, in January through March. Because the national and local indexes are calculated differently, their magnitudes cannot be directly compared. However, their trends often are similar. Both indexes are at a level that has been exceeded roughly two-thirds of the time since the CSUB Economics Department began constructing the Bakersfield index in the first quarter of 1999. Both the University of Michigan and CSU Bakersfield consumer sentiment indexes are constructed from a random sample of telephone interviews.

CSU Bakersfield compiles the Bakersfield index in order to help local decision makers compare national and local trends. The Bakersfield index is disaggregated into sub-indexes measuring recent financial conditions and future expectations.

The sub-index measuring current financial conditions increased from 97 in the final quarter of 2012 to 104 at the beginning of 2013. Responses to all three questions addressing recent trends were more bullish than in the previous quarter. Adjusting for seasonal fluctuations, 30 percent reported spending more than usual on discretionary items, compared to 21 percent in the previous quarter. Twenty-three percent reported their family is better off financially than one year ago, compared to 21 percent in the previous quarter. Nineteen percent reported their friends and acquaintances in Kern County appeared to be better off financially, compared to 14 percent in the previous quarter

The sub-index measuring expectations for the coming year also showed improvement, increasing to 91 from 87 in the final quarter of 2012. The percent of households reporting they expected their financial situation to improve over the coming year increased to 30 percent from 29 percent in the previous quarter, while the percent expecting their condition to worsen decreased from 24 to 21 percent. Sixteen percent considered this to be a safe time to buy expensive items by borrowing or drawing down savings, compared to 12 percent in the previous quarter. The percent of respondents considering this to be a risky time to incur debt or draw down savings decreased from 45 to 40 percent. There was a shift toward neutrality in perceptions of how local acquaintances view their future, with a couple percentage points fewer of respondents reporting both optimism and pessimism.



(Continued on page 5)

Table 1: Index Values			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	98	92	101
Sub-index: Current Conditions	104	97	98
Sub-index: Future Expectations	91	87	103

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).	30 %	50 %	20 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	23 %	57 %	20 %
How your acquaintances in Kern County are doing financially compared to one year ago.	19 %	60%	21 %

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	30 %	49 %	21 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	18 %	53 %	29 %
	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?	16 %	44 %	40 %

Kern Business (Continued from page 3)

Economic Outlook:

When asked about Kern County’s economy, 42 percent of interviewees perceived no change this quarter. Nevertheless, 43 percent felt conditions improved and 15 percent said conditions worsened.

Likewise, 44 percent felt that economic conditions would remain unchanged next quarter. However, 46 percent anticipated the economy would get better and 10 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:

- Improved business conditions
- Investment in infrastructure, creating more jobs
- High prices for petroleum and farm products

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

- Obama Care hurting medical professionals
- Tight credit and housing markets
- More stringent federal and state regulations

TRACKING KERN'S ECONOMY¹

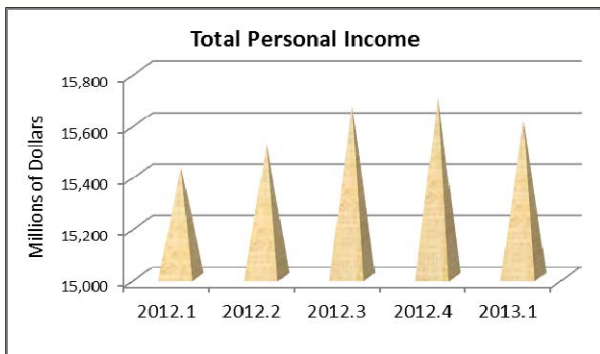
2013 FIRST QUARTER

ABBAS P. GRAMMY

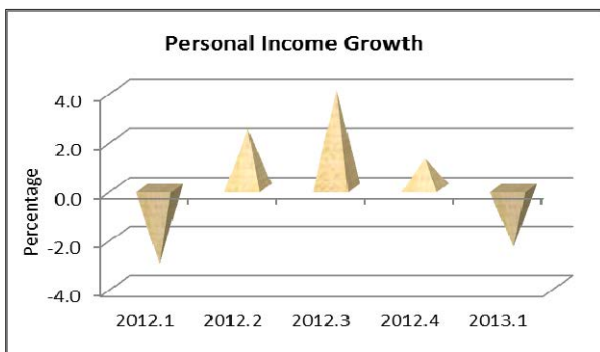
PROFESSOR OF ECONOMICS, CSUB

Economy

Personal Income - Kern County's total personal income (in constant 1996 dollars) decreased \$90 million from \$15.70 billion in the fourth quarter of 2012 to \$15.61 billion in the first quarter of 2013. The main factors contributing to this contraction were a sizable loss of jobs and a persistent loss of homes to foreclosure. These negative effects were partly offset by increased business activity, rising housing prices, and added unemployment benefits. However, Kern County's economy generated \$180 million more income relative to the first quarter of last year.

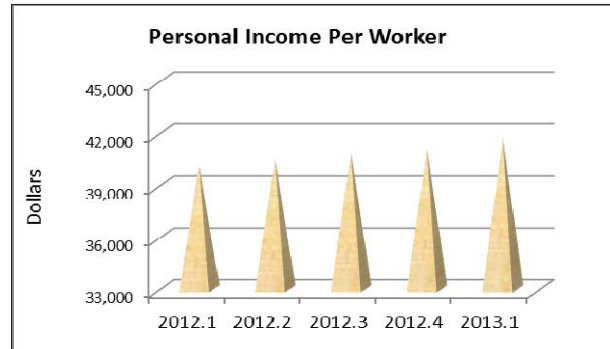


Growth of Personal Income - The loss of \$90 million of personal income resulted in an annualized growth rate of -2.4 percent in the first quarter of 2013. Kern's economy expanded at an annual rate of 1.2 percent in the previous quarter, but contracted 3.1 percent four quarters ago.



Personal Income Per Worker - The fall in total personal income was offset by a larger decline in the labor force. As a result, personal income per worker gained \$650 from \$41,100 in the fourth quarter of 2012 to \$41,750 in the first quarter of 2013. Likewise, personal

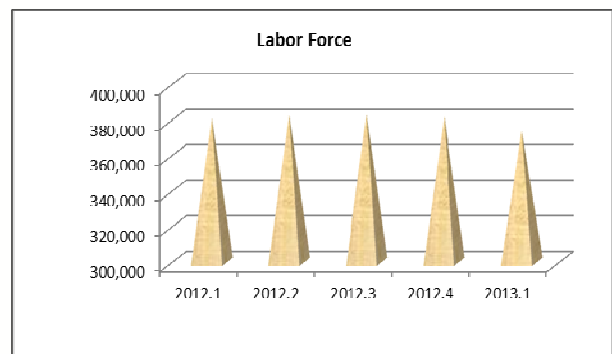
income per worker was up \$1,650 this quarter relative to first quarter of last year.



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.

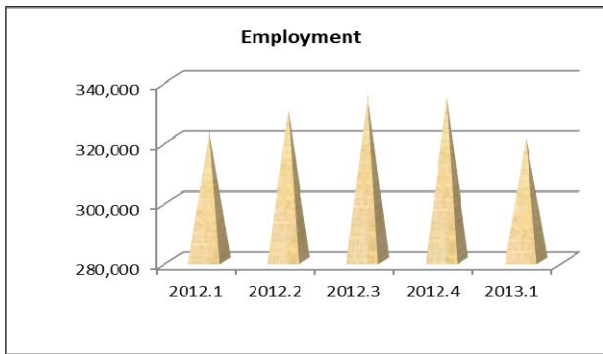
Labor Force - The civilian labor force decreased by 8,060 members from 381,910 in the fourth quarter of 2012 to 373,850 in the first quarter of 2013. Likewise, 7,030 fewer workers were available for work this quarter relative to the first quarter of 2012.



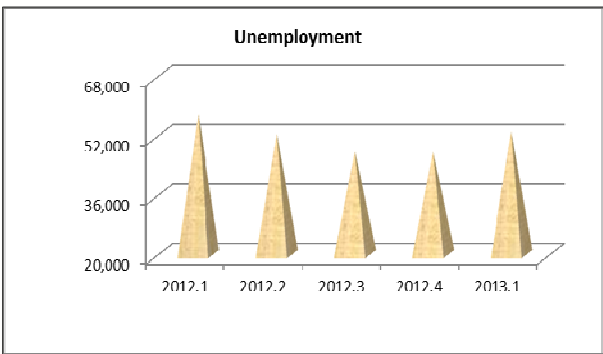
Employment - In the first quarter of 2013, Kern County's economy hired 13,460 fewer workers as total employment decreased from 334,310 to 320,850. Similarly, the county employed 2,300 fewer workers this quarter relative to the first quarter of last year.

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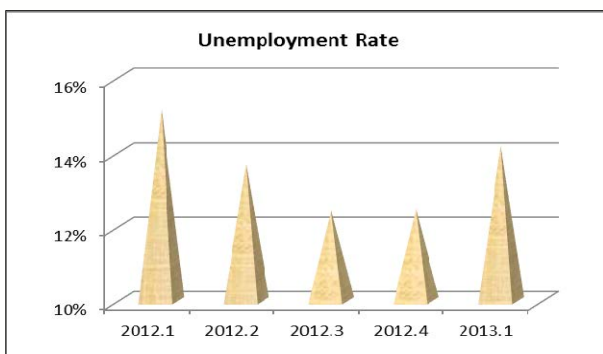
¹Source - Online databases: labormarketinfo.edd.ca.gov, bakersfieldgasprices.com, dqnews.com, economagic.com, bea.gov, bls.com, gpoaccess.gov, dairy.nu, msn.com, census.gov, kerndata.com, and bry.com



Unemployment - The number of jobless workers increased by 5,400 as total unemployment climbed from 47,600 in the fourth quarter of 2012 to 53,000 in the first quarter of 2013. However, 4,730 fewer workers were unemployed this quarter than four quarters ago.



Unemployment Rate - In the meantime, the rate of unemployment increased from 12.5 percent in the fourth quarter of 2012 to 14.2 percent in the first quarter of 2013. Nevertheless, Kern County's unemployment rate was 1.0 percent lower than that of four quarters ago.

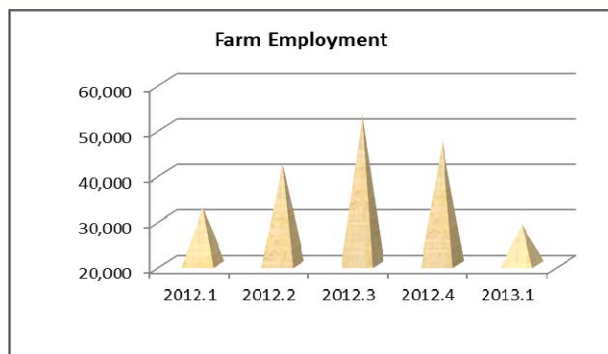


The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate varied between 7.8 percent in Ridgecrest and 34.7 percent in Arvin. In Bakersfield, the rate of unemployment was 9.5 percent. Like Arvin, the farming economies of Delano, McFarland, Wasco, Lamont, and Shafter recorded unemployment rates in excess of 20 percent.

Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Ridgecrest	7.8	Oildale	14.3
Inyokern	8.3	Mojave	15.2
Tehachapi	8.6	Lake Isabella	16.0
Bakersfield	9.5	Shafter	23.9
California City	10.7	Lamont	24.0
Rosamond	11.3	Wasco	24.8
Frazier Park	11.9	McFarland	27.8
Wofford Heights	13.0	Delano	33.5
Taft	13.3	Arvin	34.7

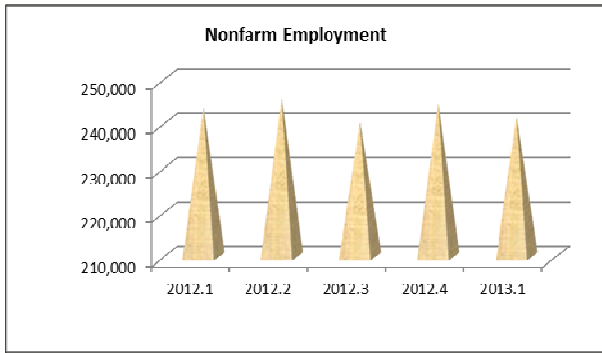
Note: City-level data are not adjusted for seasonality and "informal" market workers.

Farm Employment - In the first quarter of 2013, the farming industry hired 18,260 fewer workers as its employment plunged from 47,010 to 28,750. Similarly, the farming industry hired 3,890 fewer workers this quarter than four quarters ago.

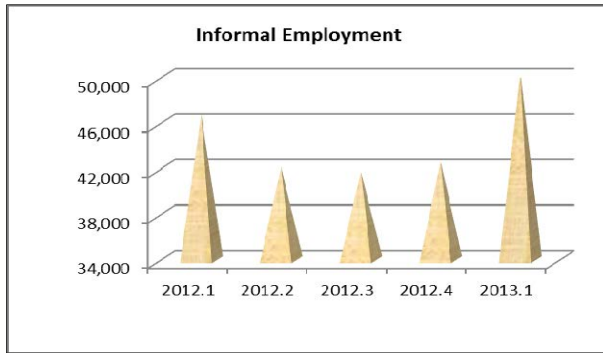


Nonfarm Employment - Local nonfarm industries employed 3,000 fewer workers this quarter. The number of nonfarm jobs decreased from 244,670 in the fourth quarter of 2012 to 241,670 in the first quarter of 2013. Likewise, nonfarm industries employed 2,070 fewer workers this quarter than four quarters ago.

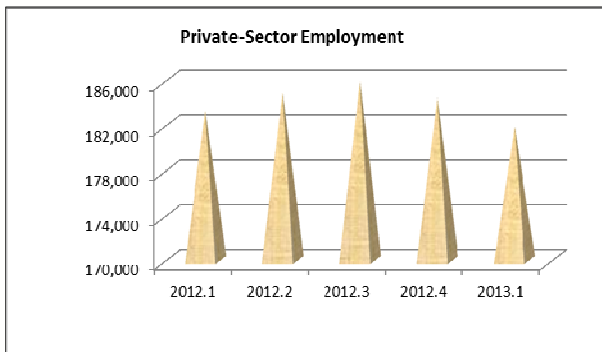
Several nonfarm industries added jobs: oil and oil-supporting industry, information, health-care and social assistance, and financial activities. However, jobs were cut in manufacturing, construction, retail trade, transportation, warehousing and utilities, professional and business services, leisure and hospitality, and federal, state, and local governments.



Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those working outside their county of residence. In the first quarter of 2013, the number of informal workers increased by 7,800 from 42,630 to 50,430. Similarly, the informal labor sector hired 3,660 more workers this quarter relative to the first quarter of last year.

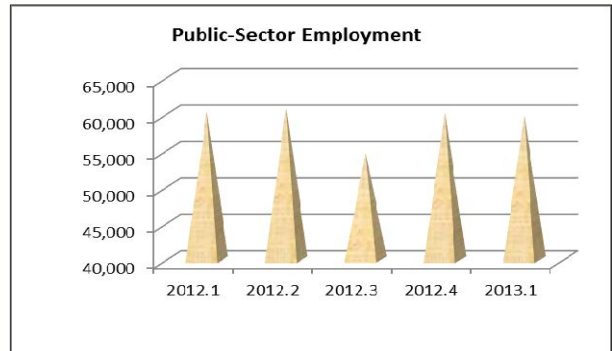


Private-Sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the first quarter of 2013, private companies hired 2,570 fewer workers as their employment decreased from 184,440 to 181,870. Likewise, private-sector employers employed 1,440 fewer workers this quarter than four quarters ago.



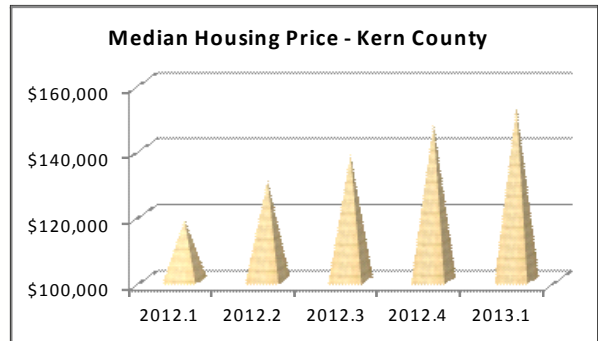
Public-Sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the first quarter of

2013, government agencies hired 430 fewer workers as their employment decreased from 60,230 to 59,800. Also, the public sector employed 630 fewer workers this quarter relative to four quarters ago.

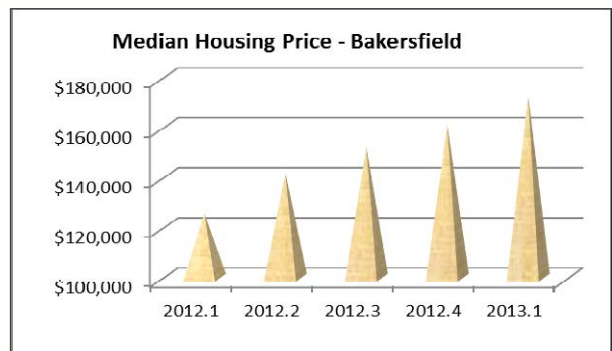


Housing Market

Housing Price - In the first quarter of 2013, Kern County's housing market conditions continued to improve. The median sales price for all residential units appreciated \$5,100 (or 3.4 percent) from \$147,900 to \$153,000. Likewise, the county's median housing price was \$34,600 (or 29.2 percent) higher than that of four quarters ago.



In Bakersfield, the median housing price appreciated \$11,600 (or 7.2 percent) from \$161,100 to \$172,700. Similarly, the city's median housing price was \$47,200 (or 37.6 percent) higher than that of four quarters ago.

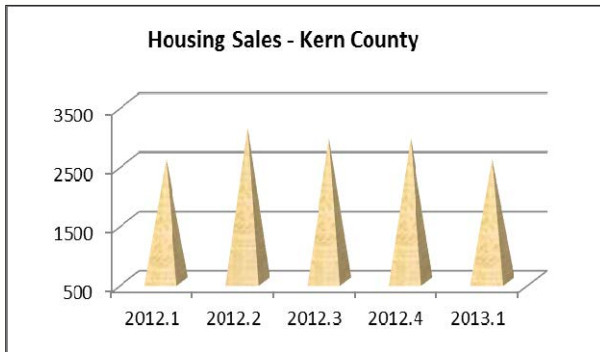


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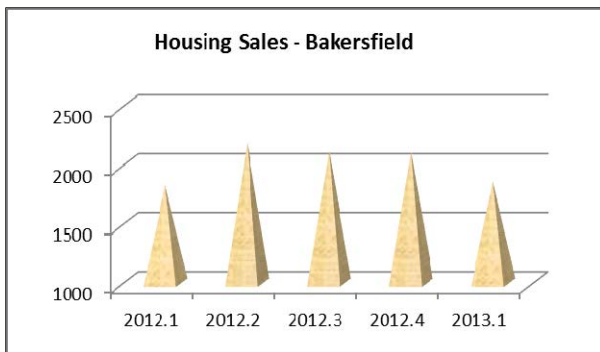
Housing price changes varied across the county. Among selected locations shown below, the median sales price appreciated in Bakersfield, Delano, and Tehachapi. Housing prices depreciated in California City, Ridgecrest, and Taft.

Location	Median Price 2013.1	Median Price 2012.4	Price Change 2012.4 to 2013.1	Price Change 2012.4-2013.1
Kern County	\$153,000	\$147,900	\$5,100	3.4%
Bakersfield	\$172,700	\$161,100	\$11,600	7.2%
California City	\$52,250	\$59,000	-\$6,750	-11.4%
Delano	\$129,700	\$125,000	\$4,700	3.8%
Ridgecrest	\$134,200	\$139,300	-\$5,100	-3.7%
Rosamond	\$127,200	\$127,250	\$50	0.0%
Taft	\$63,100	\$80,300	-\$17,200	-21.4%
Tehachapi	\$160,600	\$158,600	\$2,000	1.3%

Housing Sales - In Kern County, 361 fewer homes were sold as total sales decreased from 2,935 in the fourth quarter of 2012 to 2,574 in the first quarter of 2013. Likewise, 3 fewer units were sold this quarter relative to the first quarter of last year.

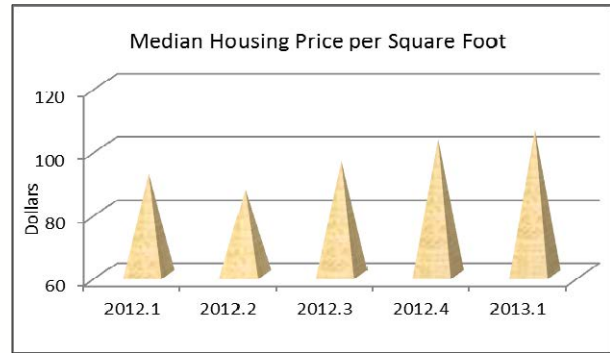


In Bakersfield, 251 fewer homes were sold as sales of residential units dropped from 2,111 in the fourth quarter of 2012 to 1,860 in the first quarter of 2013. However, sales were up by 33 units this quarter relative to the first quarter of last year.

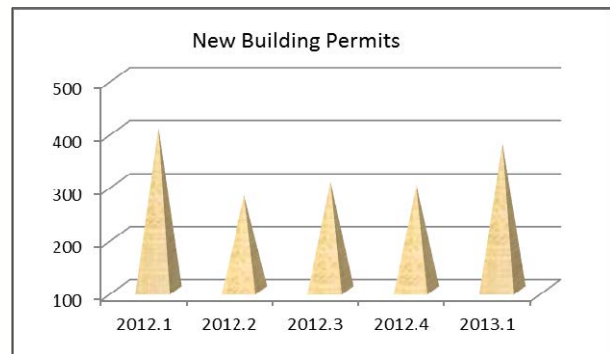


Housing Price per Square Foot - The median sales price per square foot of housing area inclined \$3 from \$103 in the fourth quarter of 2012 to \$106 in the first quarter of 2013. Likewise, the median housing price per

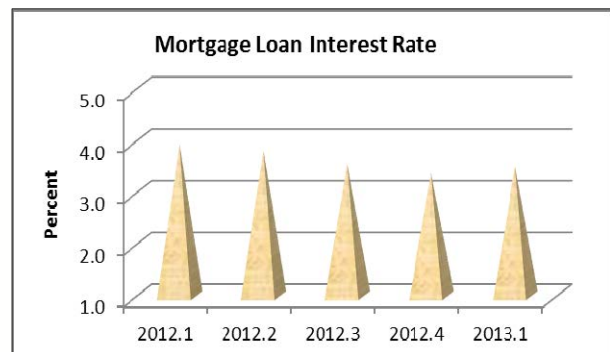
square foot has gone up \$14 since the first quarter of last year.



New Building Permits - In the first quarter of 2013, Kern County issued 75 more building permits for construction of new privately-owned dwelling units. The number of permits increased from 302 to 377. However, 30 fewer building permits were issued this quarter relative to four quarters ago.

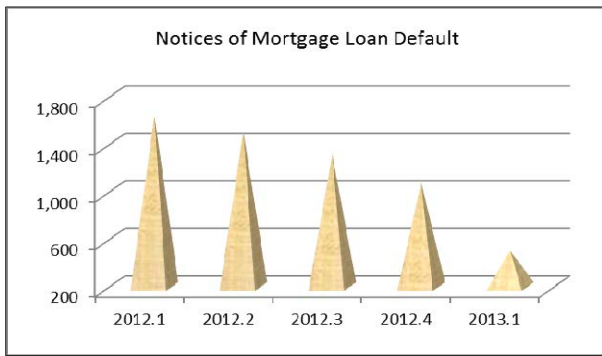


Mortgage Interest Rate - In the first quarter of 2013, the interest rate of thirty-year conventional mortgage loans increased from 3.36 to 3.50 percent. Four quarters ago, the mortgage loan interest rate was 3.92 percent.

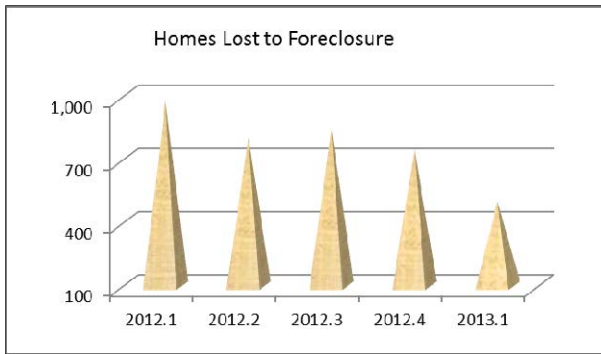


Housing Foreclosure Activity - In the first quarter of 2013, the county's foreclosure activity continued to slow from 1,082 to 503. As a result, 579 fewer homeowners received notices of loan default from their mortgage bankers. Likewise, the number of default notices has gone down by 1,138 since the first quarter of last year.

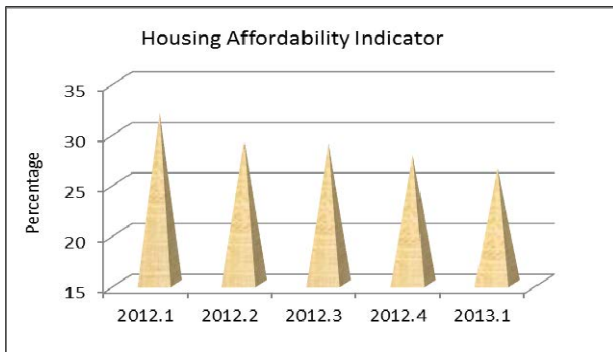
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The number of homes lost to foreclosure decreased from 744 in the fourth quarter of 2012 to 502 in the first quarter of 2013. As a result, 242 fewer homes were lost to foreclosure. Likewise, 479 fewer homes were lost to foreclosure this quarter relative to four quarters ago.



Housing Affordability - Median housing prices divided by median household income is a measure of housing affordability. With appreciation of housing prices and slow growth of household income, the affordability indicator declined from 27.7 percent in the fourth quarter of 2012 to 26.5 percent in the first quarter of 2013. The housing affordability indicator was 31.9 percent four quarters ago.



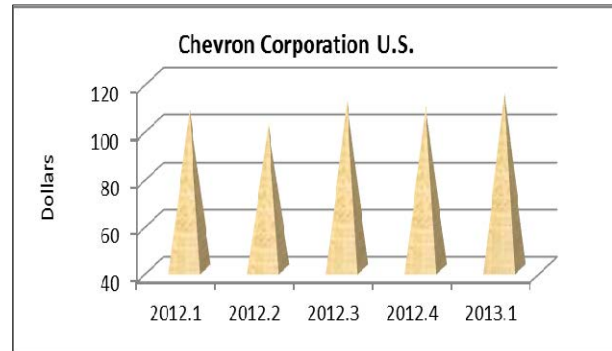
Stock Market

In the first quarter of 2013, the composite price index (2012.1 = 100) of the five publically traded companies doing business in Kern County increased 9.7 points from 107.5 to 117.2. The index was 17.2 points higher than that of four quarters ago. Average “close” prices

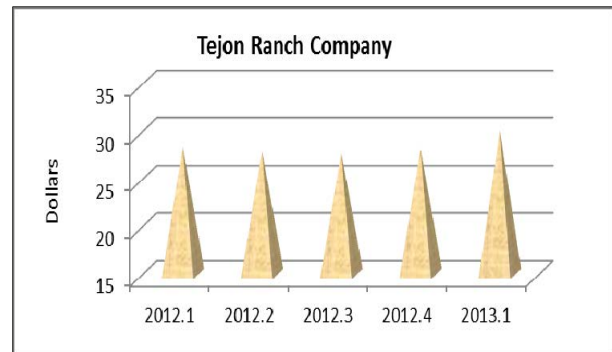
were measured for five local *market-movers*: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.



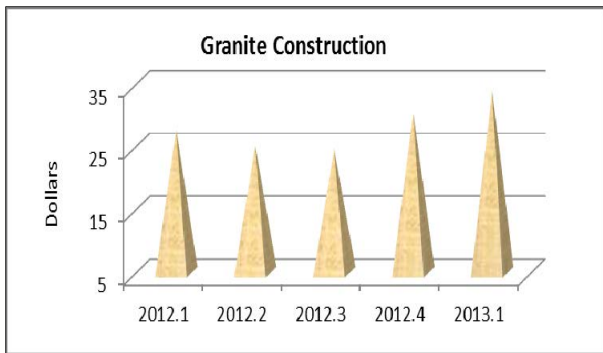
Chevron Corporation US - CVX gained \$6.85 (or 6.3 percent) per share as its price increased from \$109.14 in the fourth quarter of 2012 to \$115.99 in the first quarter of 2013. Relative to the first quarter of 2012, CVX has made \$8.39 (or 7.8 percent).



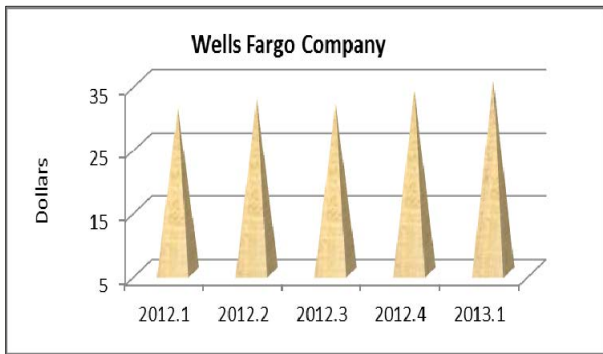
Tejon Ranch Company - TRC gained \$1.93 (or 5.7 percent) per share as its price increased from \$28.13 in the fourth quarter of 2012 to \$30.06 in the first quarter of 2013. Likewise, TRC was up \$4.57 (or 14.7 percent) relative to the first quarter of 2012.



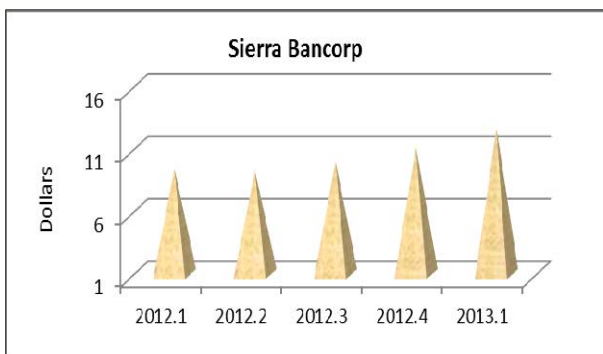
Granite Construction - GVA made \$3.74 (or 12.3 percent) per share in the first quarter of 2013 as its price increased from \$30.29 to \$34.03. Likewise, GVA has gone up \$6.38 (or 23.1 percent) since the first quarter of 2012.



Wells Fargo Company - WFC grew \$1.92 (or 5.7 percent) per share as its price ascended from \$33.73 in the fourth quarter of 2012 to \$35.65 in the first quarter of 2013. Relative to one year ago, WFC was up \$4.57 (or 14.7 percent).

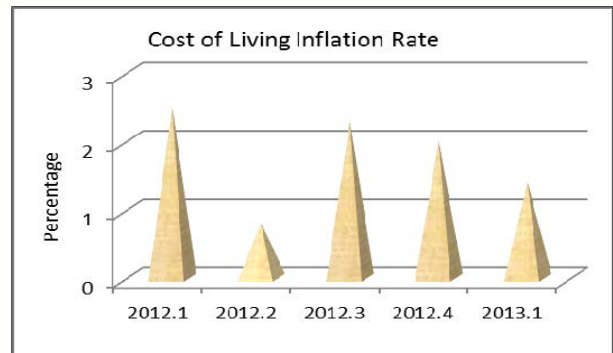


Sierra Bancorp - BSRR gained \$1.50 (or 13.4 percent) per share as its price inclined from \$11.20 in the fourth quarter of 2012 to \$12.70 in the first quarter of 2013. Likewise, BSRR has gone up \$3.26 (or 34.5 percent) since the first quarter of 2012.

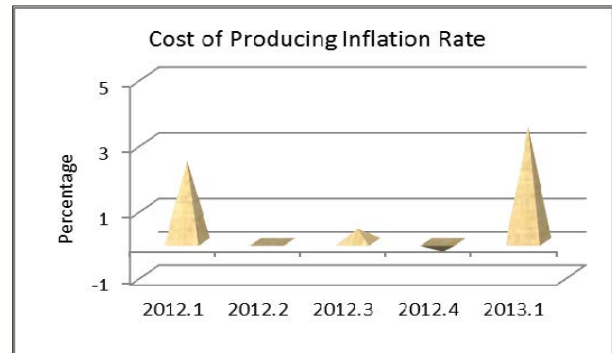


Inflation

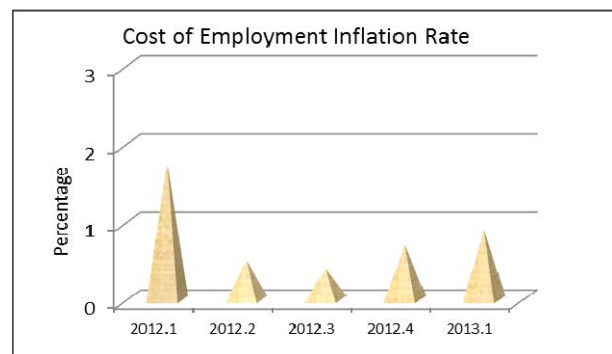
Cost of Living - The Consumer Price Index for all urban areas (1982-84 = 100) inclined from 231.3 in the fourth quarter of 2012 to 232.1 in the first quarter of 2013. As a result, inflation for the cost of living accelerated at an annual rate of 1.4 percent. The cost of living inflation rate was 2.0 percent last quarter and 2.5 percent four quarters ago.



Cost of Producing - The Producer Price Index for all commodities (1982 =100) increased from 202.2 in the fourth quarter of 2012 to 209.2 in the first quarter of 2013. As a result, the cost of production soared at an annual rate of 3.5 percent. The cost of producing inflation rate was -0.3 last quarter and 2.5 percent four quarters ago.



Cost of Employment - The Cost of Employment Index (December 2005 = 100) increased from 117.7 in the fourth quarter 2012 to 118.3 in the first quarter of 2013. The cost of employment inclined at an annual rate of 0.9 percent. The cost of employment inflation rate was 0.7 percent last quarter and 1.7 percent four quarters ago.

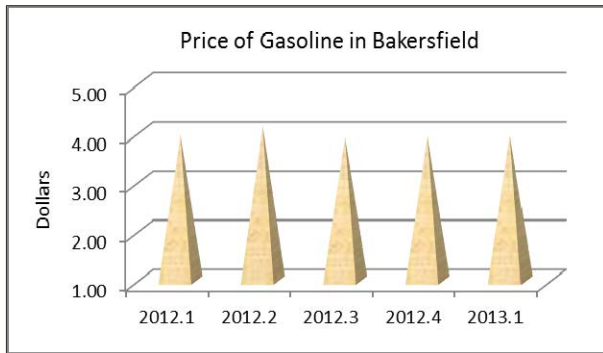


Commodity Prices

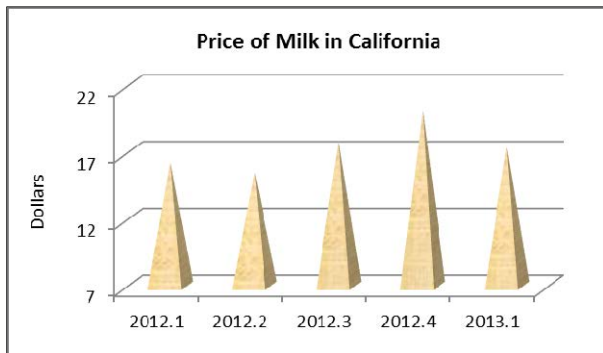
Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline increased 2¢ (or 0.5 percent) per gallon from \$3.93 in the fourth quarter of 2012 to \$3.95 in the first quarter of 2013. Com-

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pared with the first quarter of last year, the average gasoline price was constant at \$3.95.

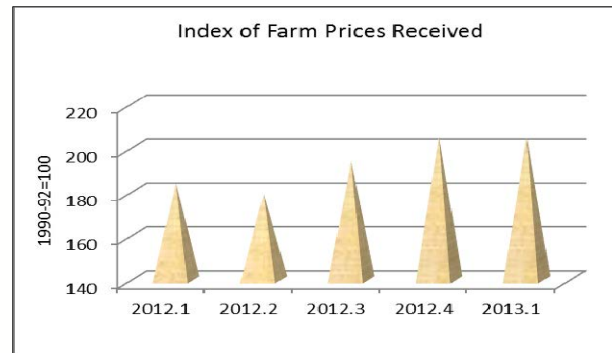


Price of Milk - The unit price of California’s Class III milk decreased \$2.73 (or 13.5 percent) from \$20.17 in the fourth quarter to \$17.44 in the first quarter of 2013. However, the unit price of milk has gone up \$1.16 (or 7.1 percent) since the first quarter of 2012.

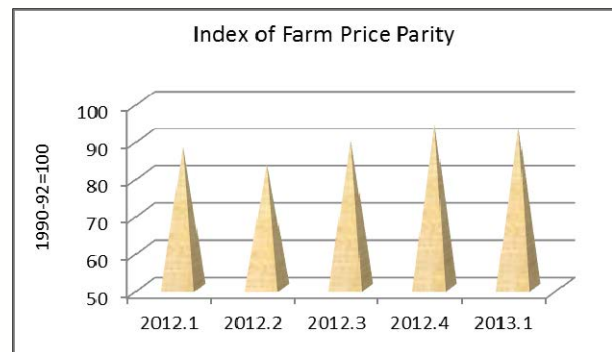


Farm Prices - In the first quarter of 2013, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) remained constant at 205. Nevertheless, the index was 21 points higher than that of four quarters ago.

The national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents climbed 2 points to reach 220. The index value was 11 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 2013, the gap between prices paid and prices received widened as the Index of Farm Price Parity dropped from 94 to 93 percent. Four quarters ago, the price ratio was 88 percent.



At a Glance (Continued from page 2)

received and input prices farmers paid widened from 94 to 93 percent. The composite price index (2012.1 = 100) of the top five locally traded stocks rose 10.3 points from 107.5 to 117.2. In the first quarter of this year, the average stock price improved for Chevron Corporation, Wells Fargo Company, Tejon Ranch Company, Granite Construction, and Sierra Bancorp.

A key reason for China outperforming India is its political structure. Having a government with unlimited power gives China the ability to implement policies as fast as they are made. On the contrary, India's democracy is not as efficient in terms of policy-making and implementation since political parties battle over majority votes. This difference has enabled China to build a strong and viable infrastructure to compete in the global economy. This advantage along with a strong focus on education and health-care has allowed China to train and retain more professionals, especially in fields of science and technology.

Will India catch China? India's population is growing at an annual rate of 1.3 percent compared with China's 0.5 percent. Growing at these rates, India's population will surpass China's population by 200 million in 2050.³ Nonetheless, it seems highly unlikely for India to surpass China economically.

China's economy has been growing at an average rate of about 10 percent per year for the past thirty years. Amazingly, the Chinese economy has expanded fourteen-fold since 1980. As a result, China has emerged as the second largest economy behind the United States. It is expected that rapid economic growth of China coupled with sluggish economic growth of the United States would enable China to overtake the United States by 2020. Over the past three decades, India's growth has been less dynamic than China. Although India has not been growing as fast as China, its overall growth has been steady and solid at an average annual rate of 6 percent. India has become more fundamentally sound and consistently is showing an upward swing due to rapid expansion of services and manufacturing industries.⁴

Despite the fact that both India and China have emerged as two of the biggest economies in the world, they still face serious challenges. For China, the costs of hasty expansion have been rapid depletion of natural resources; deterioration of agriculture; greater dependence on foreign direct investment; massive consumption of fossil fuel energy; increased air pollution; and absence of an effective legal system capable of protecting intellectual property rights. Barriers to India's economic development are also numerous: widespread poverty, sizable disparity in the distribution of wealth; massive rural-urban migration; poor sanitation in major cities; underdeveloped infrastructure; inadequate educational and health-care services; and rampant corruption.⁵ Despite these inadequacies, India has solidified itself as a major economic power of the region.

India has two key advantages over China: democratic polity and youthful population. With all its inefficiencies, India's participatory democracy provides the people and the media with the diversity of opinion in making decisions based on the majority rule. On the contrary, Chinese autocracy offers directives for the nation's resource allocation and development priorities. It seems unlikely for China to sustain its capitalistic economic system under the communist rule. In addition, India has a youthful population (median age of 26 years), whereas China has an aging population (median age of about 36 years). To take advantage of its youthful population, India needs to redirect public spending to eradicate poverty and improve education, health-care, and technology.

In closing, there will continue to be much debate on the battle between "the elephant" and "the dragon" and whether they can sustain rapid economic growth with such serious societal and environmental challenges they face. In the long-term, the economy with a more productive and cultured workforce has a better chance to prevail.

³ "Global Sherpa Globalization, World Rankings and International Development from a Positive, Comparative Perspective." *China and India - Planning vs. Jugaad*. Global Sherpa, 4 Mar. 2011. Web. 22 Aug. 2011. <http://www.globalsherpa.org/china-india>.

⁴ Paiken, Steve, *Indian Democracy, Chinese Autocracy*. 21 June 2011. YouTube. 22 Sept 2011.

⁵ Bustelo, Carlo, "China's Economic Boom and Its International Impact (ARI)." *China's Economic Boom and Its International Impact*. Fundacion Real Instituto Elcano, Madrid, 10 Feb. 2007. Web. 12 Nov. 2011.

THE ELEPHANT VS. THE DRAGON¹

It is not surprising that India and China, the most populated countries in the world, also have the fastest growing economies. Although these heavily inhabited neighboring powerhouses share such commonalities, they differ in many ways. India is a democracy, but China is an autocracy. India focuses more on services industries to fuel economic growth, whereas China relies on export-oriented manufacturing industries. Relative to India, China places greater emphasis on education and health-care. What do these differences tell us about China outperforming India? What are their demographic and economic differences? What factors account for these differences? Will India catch China? What are the challenges these countries face? We will attempt to answer these questions in this paper.

As data in the following chart show, India's population is fast approaching that of China. However, the land area of India is only one-third of China's. This difference limits India from expanding as quickly as China.² Since India is more densely populated; it has kept many people in rural areas, where agriculture is the way of making a living. Nearly 70 percent of India's population lives in rural areas compared with 53 percent in China. In India, 25 percent of the population earns less than the international poverty line of \$1.25 per person per day. In contrast, only 3 percent of China's population lives in poverty. China has emerged as the second largest economy in the world, generating \$10 trillion of income. India is the largest economy in south Asia, producing \$4 trillion annually. However, India has a better pattern of income distribution than China as shown by its lower Gini Index. Both economies have grown at a rapid annual rate of about 10 percent. Data also illustrate that the Chinese are more literate; enjoy longer life expectancy; and have greater employment opportunities. As a result, China has a higher value of the Human Development Index than India.



China vs. India – Key Development Indicators

Indicator	China	India
Population	1.3 billion	1.2 billion
Land Area	3.7 million sq. miles	1.2 million sq. miles
Urbanization Rate	47%	30%
GDP in Purchasing Power Parity	\$10 trillion	\$4 trillion
GDP Growth Rate	10.3%	10.4%
GDP Per Capita in Purchasing Power Parity	\$7,600	\$3,500
Adult Literacy	94%	63%
Life Expectancy at Birth (2008)	73 years	64 years
Population Living in Poverty	2.8%	25%
Unemployment Rate	6.1%	10%
Gini Index of Income Distribution	47%	37%
Human Development Index	66%	52%
Note: These are data 2010. Sources: Global Sherpa 2011 & World Factbook 2011		

¹ This article is an edited version of a paper written by Thomas Marler as a partial requirement of International Economic Development (ECON 410) in Fall 2011 taught by Abbas Grammy.

² Mason, Edward S., *Economic Development in India and Pakistan*, New York: AMS, 1973.