

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD  
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



Volume 15 Issue 2

# KERN ECONOMIC JOURNAL

2013 Second Quarter

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



**Enterprise College 2013  
California State University, Bakersfield**

*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 by Gary Bunk - Enterprise College: Economics for Future Leaders, June 17 - July 3, 2013, California State University, Bakersfield*

***Economy at a Glance!*** .....2

## ***Opinion Surveys***

*Kern Business Optimistic in Second Quarter* .....3

*Consumer Sentiment Unchanged in Second Quarter* .....4

## ***Tracking Kern's Economy***

*Economy* .....6

*Labor Market*.....6

*Housing Market*.....8

*Stock Market*..... 10

*Inflation* ..... 11

*Commodity Prices* ..... 11

## ***Featured Articles***

*The Economics of Love*..... 13

*The Man Who Saved Capitalism*..... Back Cover

## ***Econ Brief***

*Bakersfield Top Metropolitan Area With Largest Projected Housing Gains*.....1

### ***Econ Brief!***

#### **Bakersfield Top Metropolitan Area With Largest Projected Housing Gains**

David Lyman

Manager, Convention and Visitor Bureau

Bakersfield is predicted to have some of the best gains in average home prices in the country, according to Clear Capital, a real estate data company in Truckee, California. The report ranked Bakersfield as the best major metropolitan market, where home prices are expected to rise 5.2 percent in the second half of 2013.

According to the report, Bakersfield's two-quarter forecast of 5.2 percent places it in the lead for short-term anticipated gains out of the top 50 metropolitan areas in the nation. Bakersfield moved from 29 in March to number 1 in June. This leap is an example of the fundamental forces driving its economic recovery.

Bakersfield shares many characteristics of the first-in first-out recovery model and serves as a reminder that the recovery continues to unfold market-by-market. The local housing market, hard hit in the recent recession, now offers an attractive opportunity for homebuyers. From the peak, prices are currently down 54.3 percent, substantially more than the national losses of 34.2 percent. Additionally, the Real Estate Owned (REO) saturation<sup>1</sup> remains relatively high, but on the decline at 21.3 percent and the median sale price in the first half of this year is still low at about \$160,000.

For the complete report: <http://www.clearcapital.com/company/MarketReport.cfm?month=July&year=2013>

<sup>1</sup>REO is a class of [property](#) owned by a [lender](#), typically a [bank](#), government agency, or government loan insurer, after an unsuccessful sale at a [foreclosure](#) auction.

# ECONOMY AT A GLANCE!

2013 FIRST QUARTER

*ABBAS P. GRAMMY*

PROFESSOR OF ECONOMICS, CSUB

## National Economy

The Gross Domestic Product (GDP) increased at an annual rate of 1.7 percent in the second quarter from 1.1 percent in the first quarter, according to the "advance" estimate released by the Bureau of Economic Analysis. The increase in real GDP in the second quarter primarily reflected positive contributions from personal consumption expenditures, exports, nonresidential fixed investment, private inventory investment, and residential investment. They were partly offset by negative contributions from federal government spending and imports.

The Conference Board's Index of Leading Economic Indicators – a measure of future economic activity – improved from 94.5 in the first quarter to 95.2 in the second quarter. This small increase points to continued sluggish growth over the next six to nine months. The University of Michigan's Consumer Sentiment Index improved from a quarterly average of 77 to 82. Meanwhile, the rate of unemployment declined slowly from 7.7 to 7.6 percent. While the cost of living decreased at an annual rate of 0.2 percent, the cost of producing soared 2.8 percent and the cost of employment increased 2.0 percent.

## State Economy

In California, the unemployment rate fell from 9.6 to 8.7 percent. Among counties, San Francisco (5.5 percent), San Luis Obispo (5.7 percent), Orange (5.8 percent), Santa Clara (6.5 percent), San Diego (7.0 percent), and Sacramento (8.2 percent) had unemployment rates below the state average. However, Los Angeles (9.6 percent), Riverside (9.6 percent), and Fresno (12.5 percent) had unemployment rates above the state average.

The state's civilian labor force added 15,000 members. Meanwhile, 177,900 more workers gained jobs and 162,900 fewer workers were unemployed. Nonfarm industries were responsible for hiring 60,400 more workers, but farming enterprises hired 16,100 fewer workers. A wide range of industries added jobs: construction, manufacturing, wholesale trade, professional and business services, finance and insurance, real estate, leisure and hospitality, educational services, health-care and social assistance, and state and local governments. However, the bulk of job losses occurred in retail trade, transportation, warehousing and utilities, information, and federal government.

## Local Economy

In Kern County, households remained slightly pessimistic about employment and financial conditions of their families and relatives as the *Consumer Sentiment Index* stayed constant at 98. Meanwhile, local businesses became slightly more optimistic about local employment and economic conditions as the *Business Outlook Index* improved from 120 to 122.

In the meantime, the county's economy expanded at an annual rate of 2.8 percent. Kern's economy generated \$15.72 billion in real personal income, \$110 million more than the previous quarter. This rise in total personal income coupled with a decline in the labor force made personal income per worker to increase \$650 to reach \$42,400.

Labor market conditions improved in the second quarter of 2013. The county hired 6,270 more workers. The farming industry offered jobs to 5,370 more workers and nonfarm enterprises hired 3,000 more workers. Private enterprises employed 3,600 more workers, but government agencies offered jobs to 600 fewer laborers. Meanwhile, 9,370 fewer workers were unemployed, dropping the rate of unemployment from 14.2 to 11.8 percent. While below the county average, the rate of unemployment was 6.5 percent in Ridgecrest, 7.2 percent in Tehachapi, 8.0 percent in Bakersfield, and 9.0 percent in California City.

The housing market continued its recovery. The county's median sales price for all residential units appreciated \$16,200 (or 10.6 percent) from \$153,000 to \$169,200. In Bakersfield, the median housing price appreciated \$10,600 (or 6.1 percent) from \$172,700 to \$183,300. In Kern County, 474 more homes were sold as total sales increased from 2,574 to 3,048. In Bakersfield, 353 more homes were sold as sales of residential units inclined from 1,860 to 2,213. The number of building permits issued for the construction of new privately-owned dwelling units increased from 377 to 654. The housing affordability indicator fell from 26.5 to 25.0 percent. While the number of notices of loan default homeowners received from their mortgage bankers increased from 503 to 712, the number of homes lost to foreclosure decreased from 502 to 330.

*(Continued on page 12)*

# KERN BUSINESS OPTIMISTIC IN SECOND QUARTER

**ABBAS P. GRAMMY**

PROFESSOR OF ECONOMICS, CSUB



Results of the Business Outlook Survey indicate that Kern County business managers are slightly more optimistic about local employment and business conditions. In the second quarter (April through June) of 2013, the Business Outlook Index improved to 122 from 120. Four quarters ago, the index stood at 114.



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.

	Current Quarter	Previous Quarter	Four Quarters Ago
<b>Business Outlook Index</b>	<b>122</b>	<b>120</b>	<b>114</b>
Current Conditions Index	121	115	116
Future Conditions Index	124	126	112

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 121 from 115. However, the Future Conditions Index declined to 124 from 126. These results indicate that business managers are still optimistic about both current and future conditions.

Compared with the previous quarter survey, the percentage of positive responses fell to 34 from 35, while the percentage of negative responses dropped to 12 from 14. The percentage of neutral responses rose to 54 from 51.

## 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, 68 percent perceived that the number of jobs would stay constant next quarter, whereas 27 percent expected their companies to hire more workers. The remaining 5 percent anticipated a smaller workforce.

## Financial Outlook:

Fifty percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter. Thirty-eight percent indicated increased sales and profits, whereas 12 percent stated reduced sales and profits.

Similarly, 44 percent expected financial conditions of their companies would remain constant next quarter. However, 43 percent anticipated increased sales and profits and 13 percent predicted reduced sales and profits.

## Industry Outlook:

Fifty-four percent of survey respondents perceived that employment and general business conditions of their industries remained the same as the previous quarter, while 33 percent felt these conditions improved and 13 percent indicated crumbling business conditions.

Fifty-six percent anticipated that the employment and general business conditions of their industries would stay unchanged next quarter. Yet, 25 percent expected progress and 19 percent felt otherwise.

## Economic Outlook:

When asked about Kern County's economy, 50 percent of interviewees perceived no change this quarter. Nevertheless, 38 percent felt conditions improved and 12 percent said conditions worsened.

*(Continued on page 5)*

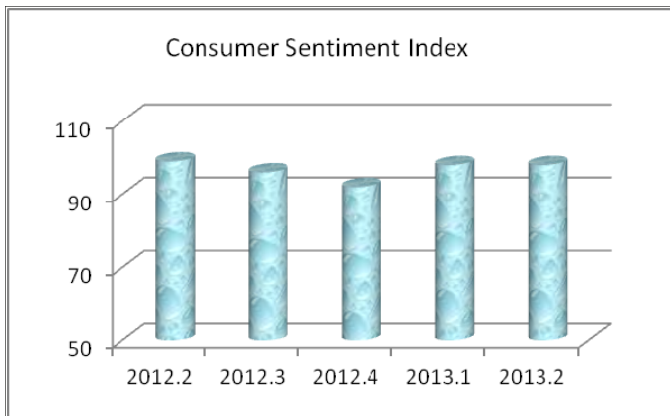
# CONSUMER SENTIMENT UNCHANGED IN SECOND QUARTER

**MARK EVANS**

PROFESSOR AND CHAIR OF ECONOMICS , CSUB



The Bakersfield Consumer Sentiment Index was unchanged in second quarter 2013, matching its first quarter value of 98. While the index did not increase, it held its first quarter gain, which followed small losses in 2012. Nationally, the Thomson Reuters/University of Michigan Consumer Sentiment Index registered a healthy gain from 77 in the first quarter to 82 in the second quarter. While the local and national indexes are both based on random telephone surveys, their magnitudes cannot be directly compared since they are based on different questions and formulas.



The local and national indexes both have reached higher ground since declining significantly in the third quarter of 2011. However, the timing of improvements in consumer sentiment has been different. Locally, consumer sentiment made a dramatic leap in the fourth quarter of 2011 and has subsequently drifted sideways in choppy fashion. Nationally, the climb was more modest initially, but it also has been more sustained. The current local reading exceeds 35 percent of the readings since CSUB began constructing the Bakersfield index in 1999. The most recent national reading exceeds 43 percent of the University of Michigan readings over this same period. So, while sentiment has improved both locally and nationally, nowhere is it bullish by historical standards.

The Bakersfield index is disaggregated into sub-indexes measuring recent trends and future expectations. While the aggregate index remained unchanged at 98, the sub-index measuring expectations for the coming year increased slightly from 91 to 94, offsetting a small retreat

from 104 to 102 in the sub-index measuring recent trends.

The decline from 104 to 102 in the sub-index measuring recent financial conditions was attributable to several factors. While there was a one percent gain in the percent of households reporting they were financially better off than one year ago, the percent indicating they were worse off increased from 20 to 26 percent. Nineteen percent of first-quarter respondents thought their local friends and acquaintances were better off than one year ago, but only 15 percent made this observation in the most recent survey. The percentage of households reporting that they thought their acquaintances were worse off increased from 20 to 26 percent. The percent of households reporting they spent more than usual on discretionary items declined by four percentage points (from 30 to 26), although the percent reporting they spent less than usual declined by the same amount (from 20 to 16).

As mentioned, the sub-index measuring expectations for the coming year increased from 91 to 94. A large increase in "pure optimism" was partially offset by stronger liquidity preferences. The percent of households expecting their financial situation to improve over the coming year increased from 30 to 48 percent, while the percent expecting their situation to worsen or become more risky plummeted from 21 to 14 percent. Similarly, 36 percent reported their local acquaintances are optimistic about the coming year compared to only 18 percent in the first quarter. However, the percent who think this is a safe time to use savings or incur debt for an expensive purchase decreased from 16 to 12 percent, while the percent who consider this to be a risky time increased from 40 to 69 percent.

*(Continued on page 5)*

<b>Table 1: Index Values</b>			
	<b>Most Recent Quarter</b>	<b>Previous Quarter</b>	<b>One Year Ago</b>
<b>Bakersfield Consumer Sentiment Index</b>	<b>98</b>	<b>98</b>	<b>99</b>
Sub-index: Current Conditions	102	104	97
Sub-index: Future Expectations	94	91	100

<b>Table 2: Recent Buying and Financial Trends</b>			
	<b>More than usual</b>	<b>Same as usual</b>	<b>Less than usual</b>
Your recent spending on discretionary items (dining out, weekend outings, entertainment).	26 %	58 %	16 %
	<b>Better off</b>	<b>Same</b>	<b>Worse off</b>
How your family is doing financially compared to one year ago.	24 %	50 %	26 %
How your acquaintances in Kern County are doing financially compared to one year ago.	15 %	69%	16 %

<b>Table 3: Future Expectations</b>			
	<b>Better or more stable</b>	<b>About the same</b>	<b>Worse or more risky</b>
The most likely financial situation of your family one year from now	48 %	38 %	14 %
	<b>Optimistic</b>	<b>Neutral</b>	<b>Fearful</b>
How your acquaintances in Kern County view the coming year.	36 %	32 %	32 %
	<b>Safe time to buy</b>	<b>Neutral response</b>	<b>Risky time to buy</b>
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	12 %	19 %	69 %

**Kern Business** (Continued from page 3)

Likewise, 48 percent felt that economic conditions would remain unchanged next quarter. However, 45 percent anticipated the economy would get better and 7 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 housing market
- Increased elderly population for at-home-care services
- Increased business sales during the summer season

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

- Stalled state economy
- Uncertain economic conditions
- Tight lending requirements by banks

# TRACKING KERN'S ECONOMY<sup>1</sup>

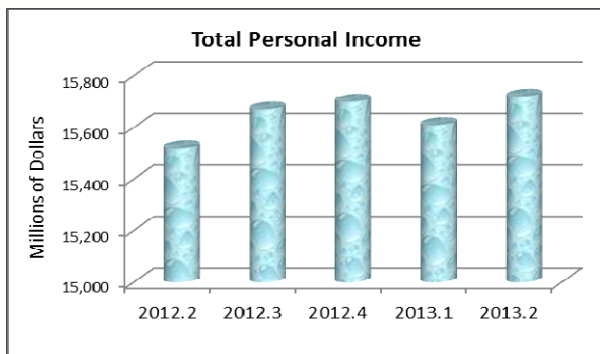
2013 SECOND QUARTER

**ABBAS P. GRAMMY**

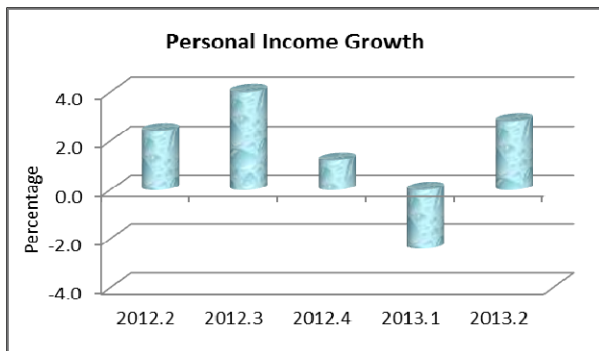
PROFESSOR OF ECONOMICS, CSUB

## Economy

**Personal Income** - Kern County's total personal income (in constant 1996 dollars) increased \$110 million from \$15.61 billion in the first quarter to \$15.72 billion in the second quarter of 2013. The main factors contributing to this expansion were more jobs, increased business activity, and rising housing prices. Relative to four quarters ago, Kern County's economy generated \$200 million more income.



**Growth of Personal Income** - The gain of \$110 million of personal income translated into an annualized growth rate of 2.8 percent in the second quarter of 2013. Kern's economy contracted 2.4 percent in the previous quarter, but expanded 2.4 percent four quarters ago.



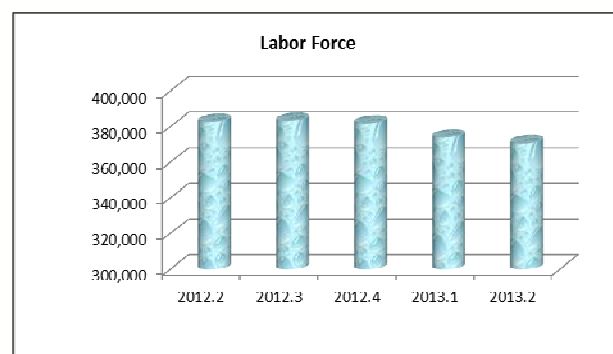
**Personal Income Per Worker** - The rise in total personal income was coupled with a decline in the labor force. As a result, personal income per worker increased \$650 to reach \$42,400 in the second of 2013. Likewise, personal income per worker was up \$1,900 this quarter relative to four quarters 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 3,100 members from 373,850 in the first quarter to 370,750 in the second quarter of 2013. Likewise, 11,960 fewer workers were available for work this quarter relative to the second quarter of 2012.

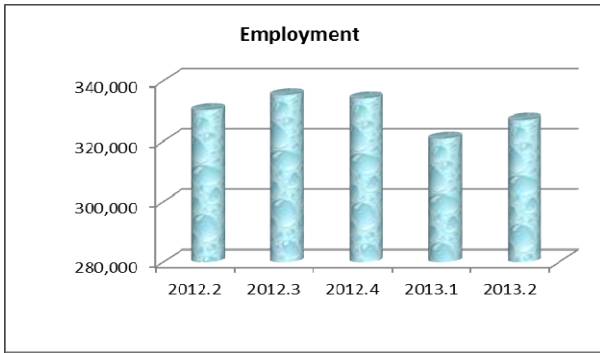


**Employment** - In the second quarter of 2013, Kern County's economy hired 6,270 more workers as total employment increased from 320,850 to 327,120. However, the county employed 3,190 fewer workers this quarter relative to the second quarter of last year.

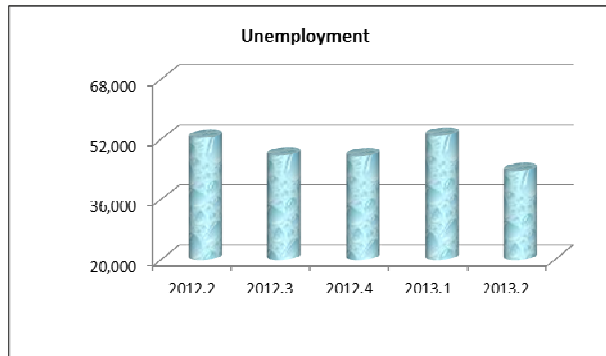
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<sup>1</sup>Source - Online databases: [labormarketinfo.edd.ca.gov](http://labormarketinfo.edd.ca.gov), [bakersfieldgasprices.com](http://bakersfieldgasprices.com), [dqnews.com](http://dqnews.com), [economagic.com](http://economagic.com), [bea.gov](http://bea.gov),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

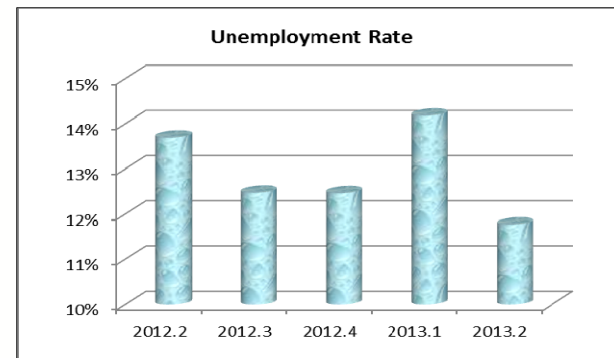




**Unemployment** - The number of jobless workers dropped by 9,370 as total unemployment declined from 53,000 in the first quarter to 46,630 in the second quarter of 2013. Likewise, 8,770 fewer workers were unemployed this quarter than four quarters ago.



**Unemployment Rate** - In the meantime, the rate of unemployment dropped 2.4 percent from 14.2 percent in the first quarter to 11.8 percent in the second quarter of 2013. Similarly, Kern County's unemployment rate was 1.9 percent lower than that of four quarters ago.

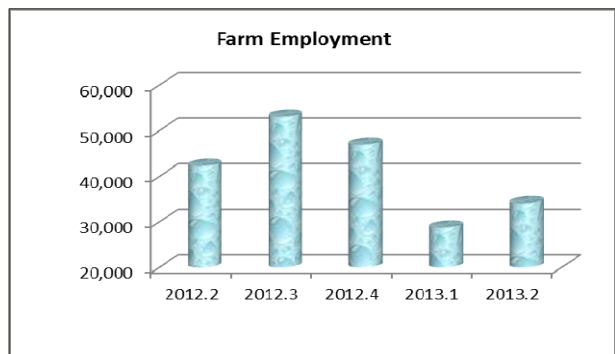


The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate varied between 6.5 percent in Ridgecrest and 30.5 percent in Arvin. In Bakersfield, the rate of unemployment was 8.0 percent.

Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Ridgecrest	6.5	Oildale	12.2
Inyokern	6.9	Mojave	12.9
Tehachapi	7.2	Lake Isabella	13.6
Bakersfield	8.0	Shafter	20.6
California City	9.0	Lamont	20.7
Rosamond	9.5	Wasco	21.4
Frazier Park	10.1	McFarland	24.1
Wofford Heights	11.0	Delano	29.4
Taft	11.3	Arvin	30.5

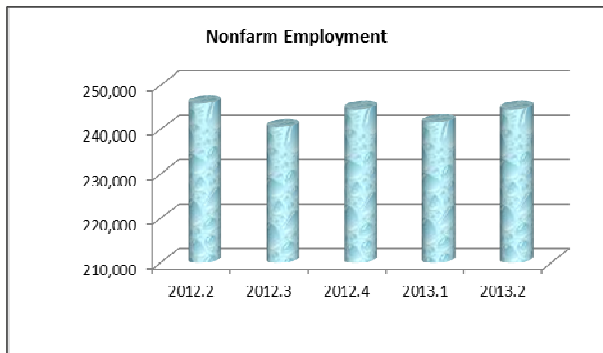
Note: City-level data are not adjusted for seasonality and "informal" market workers.

**Farm Employment** - In the second quarter of 2013, Kern County hired 5,370 more workers. Farm employment increased from 28,750 to 34,120. However, the farming industry hired 8,190 fewer workers this quarter than four quarters ago.

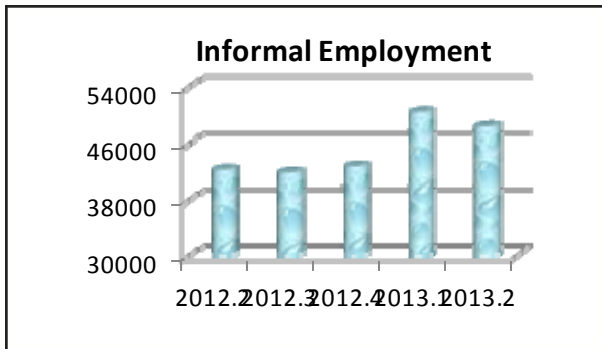


**Nonfarm Employment** - Local nonfarm industries employed 3,000 more workers. The number of nonfarm jobs increased from 241,670 in the first quarter to 244,670 in the second quarter of 2013. Nonetheless, nonfarm industries employed 1,200 fewer workers this quarter than four quarters ago.

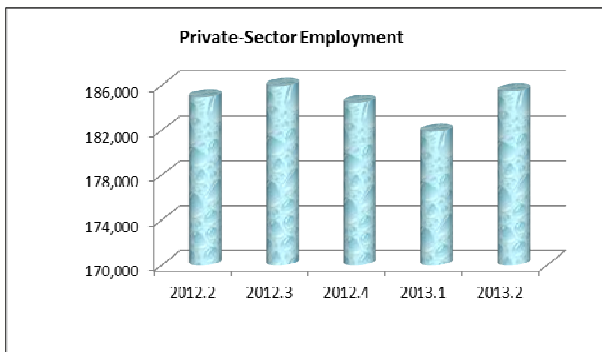
Several nonfarm industries added job: oil and oil-supporting industry, construction, manufacturing, wholesale trade, transportation and warehousing, finance, insurance and real estate, health-care and social assistance, leisure and hospitality, and professional and business services. However, jobs were cut in retail trade, information, and government. The bulk of government job losses occurred in local public education.



**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 second quarter of 2013, the number of informal workers decreased by 2,100 from 50,430 to 48,330. However, the informal labor sector hired 6,200 more workers this quarter relative to the second quarter of last year.

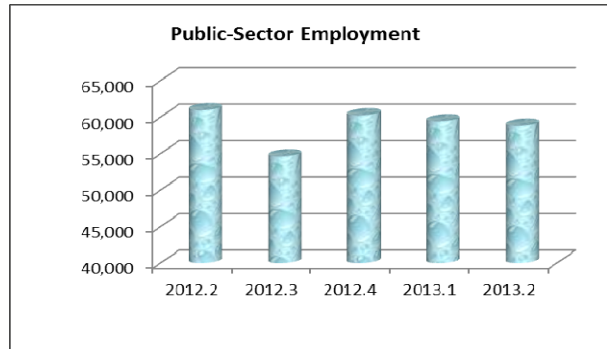


**Private-Sector Employment** - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the second quarter of 2013, private companies hired 3,600 more workers as their employment increased from 181,870 to 185,470. Likewise, private-sector employers added 530 workers this quarter than four quarters ago.



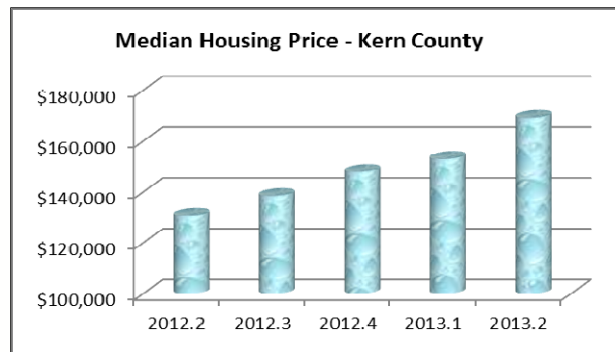
**Public-Sector Employment** - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the second quarter of 2013, government agencies hired 600 fewer workers as

their employment decreased from 59,430 to 58,830. Also, the public sector employed 2,100 fewer workers this quarter relative to four quarters ago.

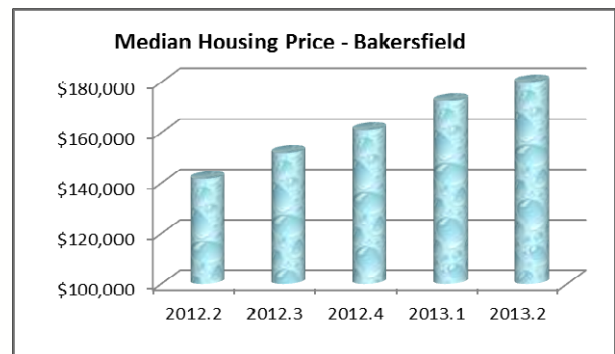


**Housing Market**

**Housing Price** - In the second quarter of 2013, Kern County's housing market conditions continued to improve. The median sales price for all residential units appreciated \$16,200 (or 10.6 percent) from \$153,000 to \$169,200. Likewise, the county's median housing price was \$38,500 (or 29.5 percent) higher than that of four quarters ago.



In Bakersfield, the median housing price appreciated \$10,600 (or 6.1 percent) from \$172,700 in the first quarter to \$183,300 in the second quarter of 2013. Similarly, the city's median housing price was \$41,600 (or 29.4 percent) higher than that of four quarters ago.

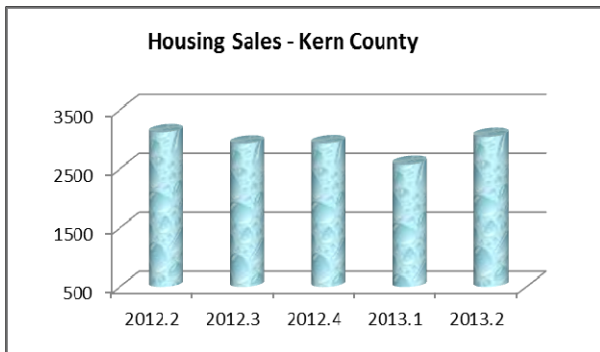


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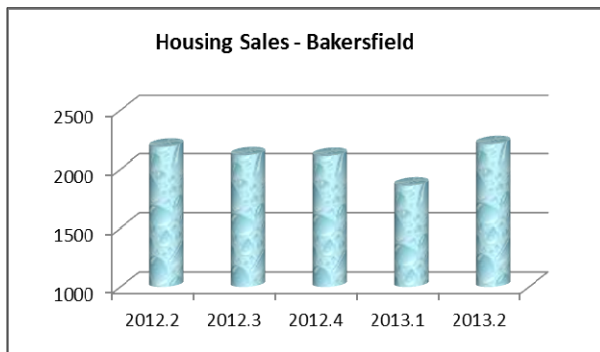
Housing price changes varied across the county. Among selected cities, the median sales price appreciated in Bakersfield, Delano, Ridgecrest, Rosamond, Taft, and Tehachapi.

Location	Median Price 2013.2	Median Price 2013.1	Price Change 2013.2 to 2013.1	Price Change 2013.2-2013.1
Kern County	\$169,200	\$153,000	\$16,200	10.6%
Bakersfield	\$183,300	\$172,700	\$10,600	6.1%
Delano	\$158,200	\$129,700	\$28,500	22.0%
Ridgecrest	\$140,900	\$134,200	\$6,700	5.0%
Rosamond	\$129,100	\$127,200	\$1,900	1.5%
Taft	\$82,300	\$63,100	\$19,200	30.4%
Tehachapi	\$171,500	\$160,600	\$10,900	6.8%

**Housing Sales** - In Kern County, 474 more homes were sold as total sales increased from 2,574 in the first quarter to 3,048 in the second quarter of 2013. However, 64 fewer units were sold this quarter relative to the second quarter of last year.

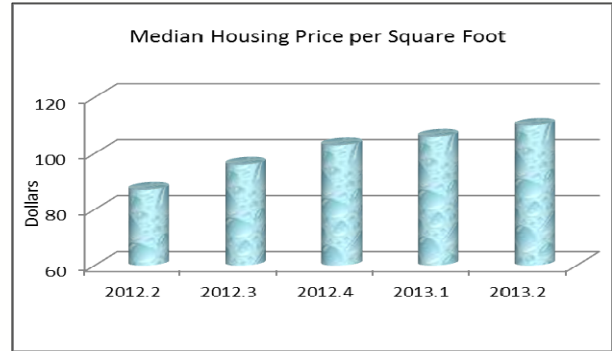


In Bakersfield, 353 more homes were sold as sales of residential units increased from 1,860 in the first quarter to 2,213 in the second quarter of 2013. Likewise, sales were up by 22 units this quarter relative to the second quarter of last year.

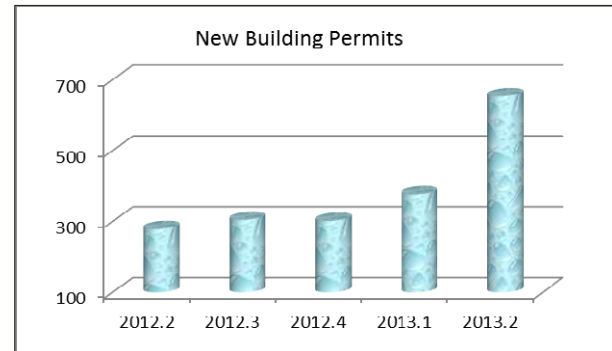


**Housing Price per Square Foot** - The median sales price per square foot of housing area inclined \$4 from \$106 in the first quarter to \$110 in the second quarter of 2013. Likewise, the median housing price per square

foot has gone up \$23 since the second quarter of last year.



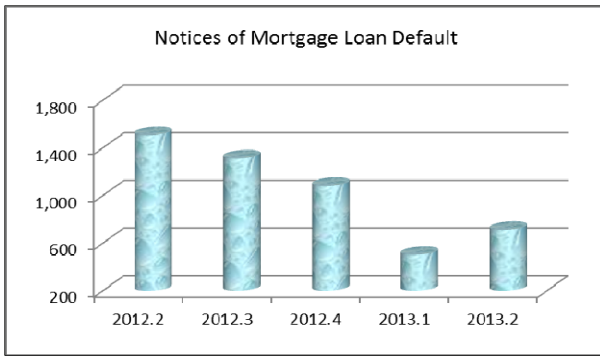
**New Building Permits** - In the second quarter of 2013, real estate conditions improved considerably as Kern County issued 277 more building permits for construction of new privately-owned dwelling units. The number of building permits increased from 377 to 654. Similarly, 375 more building permits were issued this quarter relative to four quarters ago.



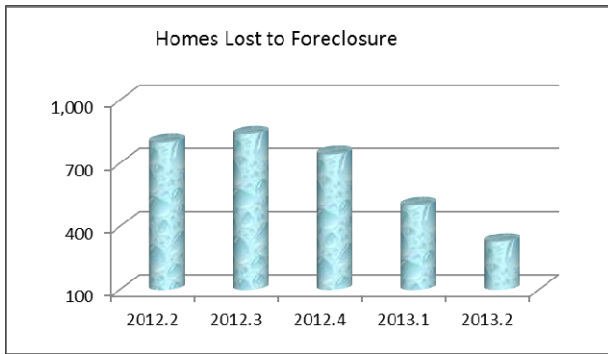
**Mortgage Interest Rate** - In the second quarter of 2013, the interest rate of thirty-year conventional mortgage loans increased from 3.50 to 3.69 percent. Four quarters ago, the mortgage loan interest rate was 3.80 percent.



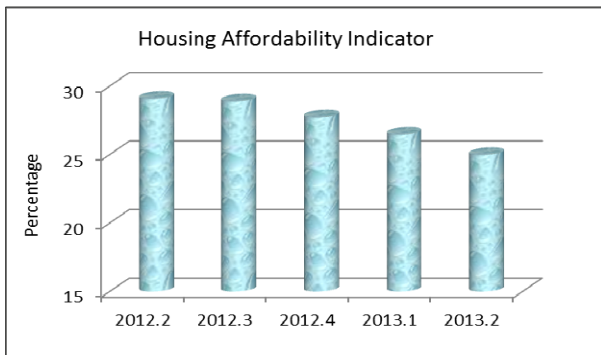
**Housing Foreclosure Activity** - In the second quarter of 2013, the county's foreclosure activity climbed from 503 to 712. As a result, 209 more homeowners received notices of loan default from their mortgage bankers. However, the number of default notices has gone down by 796 since the second quarter of last year.



The number of homes lost to foreclosure decreased from 502 in the first quarter to 330 in the second quarter of 2013. As a result, 172 fewer homes were lost to foreclosure. Likewise, 472 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 large appreciation of housing prices and modest growth of household income, the affordability indicator declined from 26.5 percent in the first quarter to 25.0 percent in the second quarter of 2013. The housing affordability indicator was 29.1 percent four quarters ago.



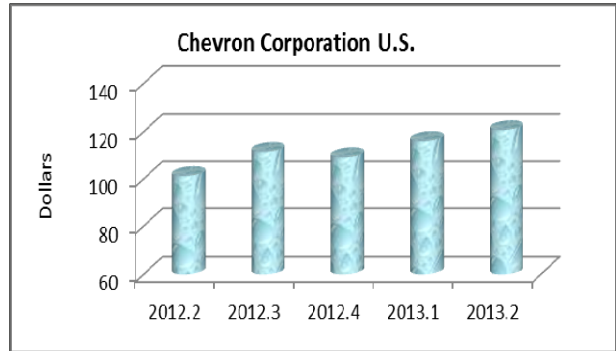
**Stock Market**

In the second quarter of 2013, the composite price index (2012.2 = 100) of the five publically traded companies doing business in Kern County increased 0.6 points from 120.9 to 121.5. The index was 21.5 points higher than that of four quarters ago. Average “close” prices were

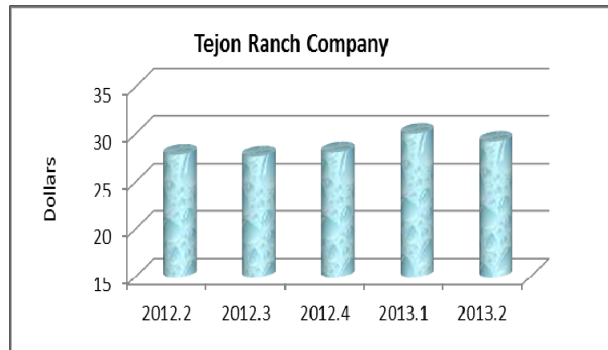
measured for five local *market-movers*: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.



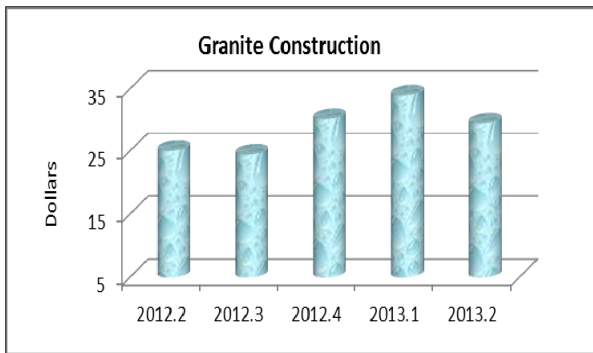
**Chevron Corporation US** - CVX gained \$4.70 (or 4.1 percent) per share as its price increased from \$115.99 in the first quarter to \$119.20 in the second quarter of 2013. Relative to the second quarter of 2012, CVX has made \$19.47 (or 19.2 percent).



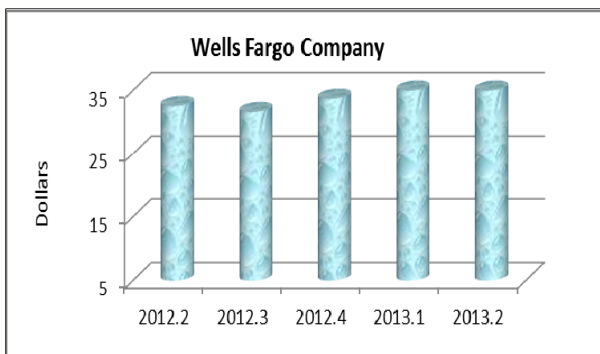
**Tejon Ranch Company** - TRC lost 82¢ (or 2.7 percent) per share as its stock price dropped from \$30.06 in the first quarter to \$29.24 in the second quarter of 2013. However, TRC was up \$1.35 (or 4.8 percent) relative to the second quarter of 2013.



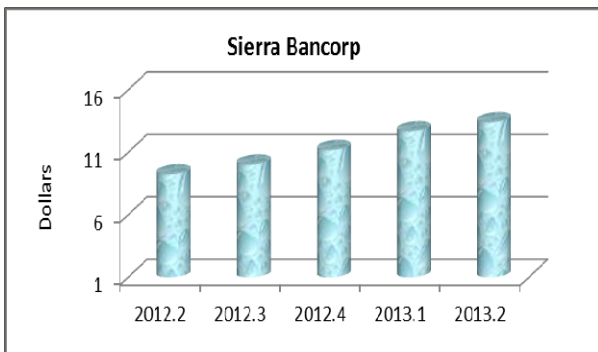
**Granite Construction** - GVA lost \$4.44 (or 13.0 percent) per share in the second quarter of 2013 as its stock price decreased from \$34.03 to \$29.59. Nonetheless, GVA has gone up \$4.51 (or 18.0 percent) since the second quarter of 2012.



**Wells Fargo Company** - WFC made \$3.62 (or 10.2 percent) per share as its stock price ascended from \$35.65 in the first quarter to \$39.27 in the second quarter of 2013. Relative to one year ago, WFC was up \$6.69 (or 20.5 percent).

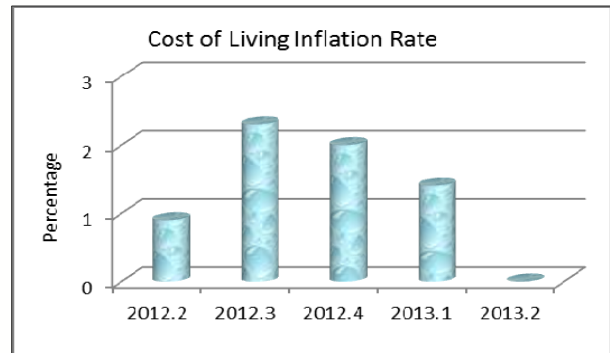


**Sierra Bancorp** - BSRR gained 72¢ (or 5.7 percent) per share as its price inclined from \$12.70 in the first quarter to \$13.42 in the second quarter of 2013. Likewise, BSRR has gone up \$4.16 (or 44.9 percent) since the second quarter of 2012.

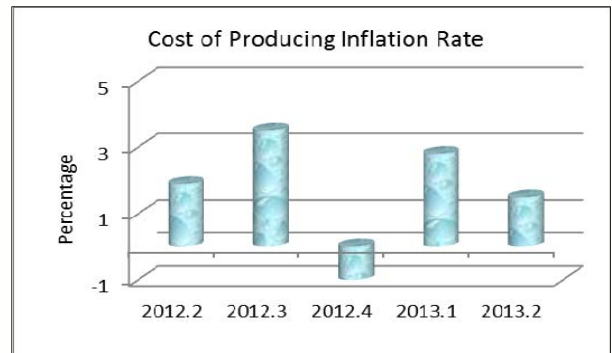


**Inflation**

**Cost of Living** - The Consumer Price Index for all urban areas (1982-84 = 100) declined from 232.1 in the first quarter to 232.0 in the second quarter of 2013. As a result, inflation for the cost of living decelerated at an annual rate of 0.2 percent. The cost of living inflation rate was 1.4 percent last quarter and 0.9 percent four quarters ago.



**Cost of Producing** - The Producer Price Index for finished consumer goods (1982 = 100) increased from 209.2 in the first quarter to 210.0 in the second quarter of 2013. As a result, the cost of production soared at an annual rate of 1.5 percent. The cost of producing inflation rate was 2.8 percent last quarter and 1.9 percent four quarters ago.



**Cost of Employment** - The Employment Cost Index (December 2005 = 100) for all civilian workers increased from 118.4 in the first quarter to 119.0 in the second quarter of 2013. The cost of employment grew at an annualized rate of 2.0 percent. The cost of employment inflation rate was 2.4 percent last quarter and 2.0 percent four quarters ago.

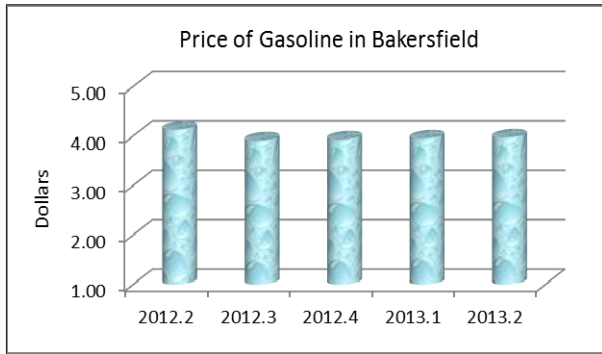


**Commodity Prices**

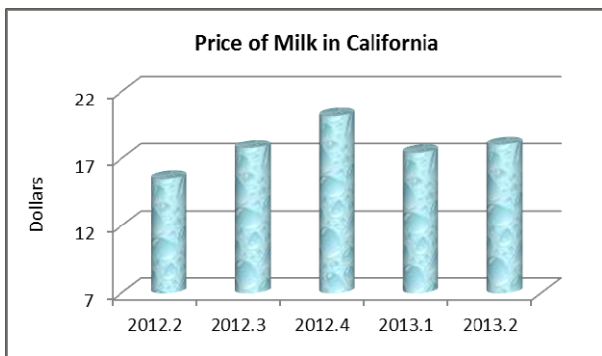
**Price of Gasoline** - In Bakersfield, the average retail price of regular gasoline increased 2¢ (or 0.5 percent) per gallon from \$3.95 in the first quarter to \$3.97 in the

(Continued on page 12)

second quarter of 2013. Compared with the second quarter of last year, the average gasoline price was down 16¢ (or 3.9 percent).

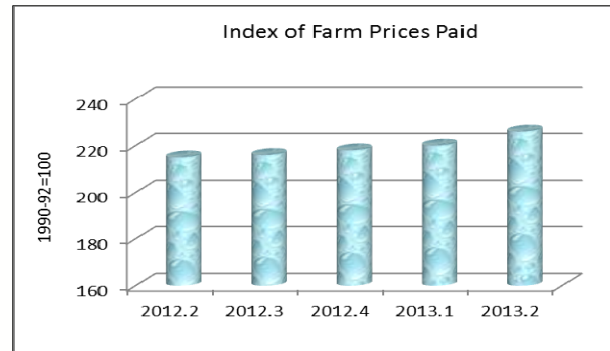
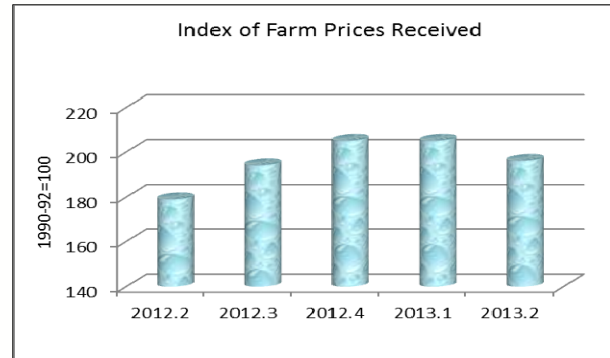


**Price of Milk** - The unit price of California’s Class III milk increased 60¢ (or 3.4 percent) from \$17.44 in the first quarter to \$18.04 in the second quarter of 2013. Also, milk prices have gone up \$2.51 (or 16.2 percent) since the second quarter of 2012.

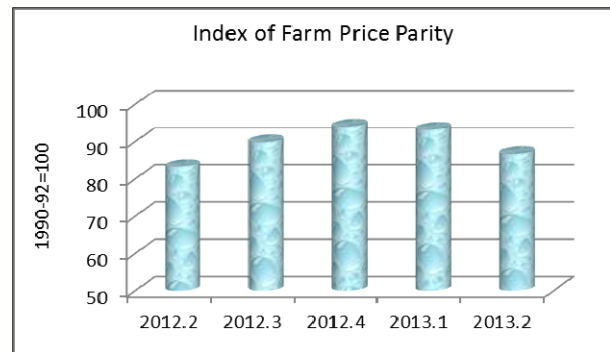


**Farm Prices** - In the second quarter of 2013, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) dropped 9 points from 205 to 196. Nevertheless, the index was 17 points higher than that of four quarters ago.

Meanwhile, the national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents climbed 6 points to reach 226. 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 second quarter of 2013, the gap between prices paid and prices received widened as the Index of Farm Price Parity fell from 93 to 87 percent. Four quarters ago, the price ratio was 83 percent.



At a Glance (Continued from page 2)

In Bakersfield, the average retail price of regular unleaded gasoline increased 2¢ from \$3.95 to \$3.97 per gallon. The unit price of California’s Class III milk increased from \$17.44 to \$18.04. The index of prices farmers received for their outputs dropped 9 points to reach 196, whereas the index of prices farmers paid for their inputs went up 6 point to arrive at 226. As a result, the gap between output prices farmers received and input

prices farmers paid widened from 93 to 87 percent. The composite price index of the top five locally traded stocks rose 0.6 points from 120.9 to 121.5. While the average stock price improved for Chevron Corporation, Wells Fargo Company, and Sierra Bancorp, it declined for Tejon Ranch Company and Granite Construction.

# THE ECONOMICS OF LOVE

ABBAS P. GRAMMY

Valentine's Day is big business for retailers as people spend much money to express love and affection. Those buying Valentine goodies like followers and chocolate pay higher prices than they normally do for the same products at any other day of the year. Paying higher prices demonstrates the law of supply and demand. On this day, there is a once-a-year surge in the demand. Meanwhile, the supply increases as more products enter the market. However, the demand increase outstrips the supply rise, resulting in a dramatic price hike. Depending on budgetary limitations, people pay higher prices to buy Valentine goodies. Otherwise, they are in trouble!

According to the *Consumer Intentions & Actions Survey* (January 2012), about 60 percent of 9,317 respondents said they celebrate Valentine's Day. The most romantic age group is 24 to 35 years as 71 percent said they celebrate the day of love. Similarly, the most passionate region of the country is the South where 62 percent of survey respondents said they celebrate the day of love. Interestingly, men spend nearly twice more than women to make it a memorable day.

On average, people celebrating Valentine's Day spend \$126. This amount, up 8.5 percent from the previous year, is the highest in the survey's ten-year history. They spend \$74 on gifts for spouses/significant others, \$25 on presents for other family members, and the remaining \$27 on goodies for friends, pets, coworkers, children's classmates and teachers, and others.

Total spending is expected to reach \$17.6 billion, up \$1.9 billion from the year prior. People spend \$10.3 billion on gifts for spouses/significant others, \$3.5 billion on presents for other family members, and the remaining \$3.8 billion on goodies for friends, pets, coworkers, children's classmates and teachers, and others.

Of the \$126 average spending, people spend almost \$30 on jewelry items, \$26 on special evening out, \$13 on flowers, \$11 on candy, \$10 on clothing, and the remaining \$36 on gift cards/gift certificates, greeting cards, and other items.

Total spending on jewelry is expected to reach \$4.1 billion, up from \$3.5 billion in the previous year. Second to jewelry, those with a case of the love bug spend \$3.6 billion on a special evening out. They also spend \$1.9 billion on flowers, \$1.5 billion on candy, \$1.5 billion on clothing, and the remaining \$3.8 billion on gift cards/gift certificates, greeting cards, and other items.

Spending for Valentine's Day celebration appears to be "pro-cyclical with a one-year lag." Total spending rose from \$16.9 billion in 2007 to \$17.0 billion in 2008, but plunged to \$14.7 billion in 2009 and \$14.1 billion in 2010. In the ensuing recovery from the recent recession, total spending spiked to \$15.7 in 2011 and reached a record high of \$17.6 billion in 2012. Having some discretionary money to spend makes it easier to express love.

2012 Valentine's Day Spending		
	Per Person	All Persons
How much money do you plan to spend on Valentine's Day gifts for:		
Spouse/Significant Other	\$74.12	\$10,326,000,000
Other Family Members	\$25.25	\$3,517,000,000
Friends	\$6.92	\$965,000,000
Children's Classmates/Teachers	\$5.81	\$809,000,000
Coworkers	\$3.73	\$520,000,000
Pets	\$4.52	\$630,000,000
Others	\$5.68	\$791,000,000
<b>Total</b>	<b>\$126.03</b>	<b>\$17,558,000,000</b>
Jewelry	\$29.60	\$4,123,000,000
An Evening Out	\$25.66	\$3,574,000,000
Flowers	\$13.49	\$1,880,000,000
Candy	\$10.85	\$1,512,000,000
Clothing	\$10.42	\$1,452,000,000
Gift Cards/Gift Certificates	\$8.43	\$1,174,000,000
Greeting Cards	\$6.93	\$966,000,000
All Other Items	\$20.65	\$2,877,000,000

Sources:

BIGinsightTM, *Consumer Intentions & Actions Survey*, January 12, 2012

Grannis, K., "Americans to Pull Out All the Stops This Valentine's Day," [www.nrf.com/consumertrends](http://www.nrf.com/consumertrends)

# THE MAN WHO SAVED CAPITALISM

ABBAS P. GRAMMY

John Maynard Keynes was the most influential economist of the twentieth century. His pioneering work, *The General Theory of Employment, Interest, and Money* (1936) has led to the development of macroeconomics.

Paradoxically, Keynes was born the year Karl Marx died (1883) as his Keynesian economics put Marxian economics to rest. He died when World War II ended, when his revolutionary ideas helped the United States recover from the Great Depression and blossom into the major economic power of the time. Interestingly, Keynes agreed with Marx that capitalism is subject to frequent economic crises of high unemployment and insufficient demand. However, his solution was radically different and greatly superior to Marx's capitalistic demise. As Robert Reich noted "Keynes transformed the dismal science into a revolutionary engine of social progress."



To begin with, Keynes rejected the idea of his predecessors that labor markets would automatically correct themselves as wages fully respond to price changes. He asserted that under recessionary conditions when the demand for labor declines, wages do not readily fall. The falling labor demand and rigid wages create persistent unemployment. The recession could get deeper and last longer as more workers lose jobs. To recover, Keynes made the government responsible for creating jobs by increasing public spending and/or lowering income taxes. Within this context, he viewed fiscal policy as a short-term economic fix. "The long run is a misleading guide to current affairs," Keynes proclaimed, "In the long run, we are all dead!"



Keynes was a remarkable individual. He studied mathematics at Cambridge University and was trained in economics under the great Alfred Marshall. Outside economics, he managed a theatrical company, collected modern art, married a ballerina, made a fortune in the stock market, served as the chairman of a life insurance company, became a director of the Bank of England, and wrote a mathematical treatise on his spare time. He was a member of the Bloomsbury Group, a fashionable society of Cambridge graduates, and played in Virginia Woolf and E. M. Forster. Keynes met Franklin Roosevelt, Winston Churchill, Bernard Shaw, Pablo Picasso, and Albert Einstein, among others.

At the end of World War I, Keynes took part in the British delegation to the Treaty of Versailles. Keynes was shocked at the level of reparations the Allies wanted to impose on the Germans. Keynes resigned from the British delegation saying it was a recipe for bankrupting Germany. He wrote the *Economic Consequences of the Peace* (1919), accurately predicting the difficulties Germany would have and the consequent political resentment of such a harsh peace treaty. In the 1920s, Keynes was a fearsome critique of Britain's decision to retain the gold standard at a pre-1914 level. He argued that this high value of sterling made life difficult for British exporters and became the main reason for Britain's rapid deflation and high unemployment.

The Great Depression (1929-33) gave Keynes the opportunity to refute the classical theory of *laissez faire* (i.e., hands off). At the outbreak of the Great Depression, the classical response was to balance the federal budget by tax increases and government spending cuts. He advised against a balanced-budget policy because it would make the recession deeper and longer. Keynes suggested the government needed to do the exact opposite of increasing public spending to engage unemployed resources. Through government spending commitments, Keynes argued the economy would find a tendency to recover.

Publication of his path-breaking book provided a framework for economic stability and growth. After World War II, to varying degrees, governments pursued Keynesian policies to achieve full employment. In the United States, President Nixon declared, "We're all Keynesians now." However, the Keynesian theory of demand-side management was challenged in the 1970s and 1980s when the United States experienced high unemployment and rapid inflation at the same. Under such difficult conditions, the Keynesian solution of fiscal expansion to increase employment accelerated inflation. While his remedy of fiscal contraction to slow inflation increased unemployment. In recent years, Keynesian economics has made a come back during the Great Recession (2007-09), when Presidents Bush and Obama stimulated the economy by massive public spending in the form of bailout and recovery packages. Keynes died from a heart attack in 1946, just as he was helping to implement the post-war economic settlement. But, his revolutionary ideas of government involvement in economics made him the man who saved capitalism from a near demise.

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