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SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



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2013 Third Quarter

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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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Dear Sponsor:

As you may have noticed, this issue of *Kern Economic Journal* is published a few weeks late. The reason for this delay is that several government-sponsored agencies, like California Employment Development Department, could not publish data for the month of September until the third week of November because of the government shut-down that occurred last October. Thank you for your patience and continued support of our effort to provide the community with local economic data.

The Editor

ECONOMY AT A GLANCE!

2013 THIRD QUARTER

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB

National Economy

The Gross Domestic Product (GDP) increased at an annual rate of 2.8 percent in the third quarter from 2.5 percent in the second quarter, according to the "advance" estimate released by the Bureau of Economic Analysis. The increase in real GDP in the third quarter primarily reflected positive contributions from private inventory investment, exports, residential fixed investment, nonresidential fixed investment, and state and local government expenditures. 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 95.2 in the second quarter to 96.6 in the third quarter. This increase points to continued economic growth over the next six to nine months. The University of Michigan's Consumer Sentiment Index stayed constant at 82. Meanwhile, the rate of unemployment declined from 7.6 to 7.3 percent. The cost of living increased at an annual rate of 2.6 percent; the cost of producing soared at 3.4 percent; and the cost of employment increased 1.7 percent.

State Economy

In California, the unemployment rate increased from 8.5 to 8.8 percent. Several counties had unemployment rates lower than the state average: San Francisco (5.7 percent), San Luis Obispo (6.5 percent), Orange (6.2 percent), Santa Clara (6.7 percent), San Diego (7.4 percent), and Sacramento (8.7 percent). However, Los Angeles (10.1 percent), Riverside (10.7 percent), and Fresno (11.8 percent) had unemployment rates above the state average.

The state's civilian labor force added 85,800 members. Meanwhile, 22,700 more workers gained jobs and 63,100 more workers were unemployed. While farming enterprises employed 32,200 more workers, nonfarm industries hired 47,800 fewer workers. A wide range of industries added jobs: logging, mining, construction, manufacturing, wholesale trade, retail trade, transportation, utilities and warehousing, information, real estate and rental and leasing, and professional and business services. However, jobs were lost in educational and health services, leisure and hospitality, and federal, state, and local governments. The bulk of job losses occurred in public education.

Local Economy

For Bakersfield residents, perceptions about employment and financial conditions of their families and relatives improved as the *Consumer Sentiment Index* increased from 98 to 100. Meanwhile, local businesses became equally optimistic about local employment and economic conditions as the *Business Outlook Index* stayed constant at 122.

In the meantime, the county's economy expanded at an annual rate of 3.2 percent. Kern's economy generated \$15.85 billion in real personal income, \$130 million more than the previous quarter. This rise in total personal income coupled with an increase in the labor force made personal income per worker to increase \$120 to reach \$42,520.

Labor market conditions improved in the third quarter of 2013. The county hired 5,500 more workers. The farming industry offered job to 11,330 more workers, but nonfarm enterprises hired 1,330 fewer workers. While private enterprises employed 900 more workers, government agencies offered jobs to 2,230 fewer laborers. Meanwhile, 1,870 fewer workers were unemployed, dropping the rate of unemployment from 11.8 to 11.1 percent. While below the county average, the rate of unemployment was 6.1 percent in Ridgecrest, 6.8 percent in Tehachapi, 7.5 percent in Bakersfield, and 8.2 percent in California City.

The housing market continued its recovery. The county's median sales price for all residential units appreciated \$10,300 (or 6.1 percent) from \$169,200 to \$179,500. In Bakersfield, the median housing price appreciated \$10,700 (or 5.8 percent) from \$183,300 to \$194,000. In Kern County, 12 more homes were sold as total sales increased from 3,048 to 3,060. In Bakersfield, 27 fewer homes were sold as sales of residential units declined from 2,213 to 2,186. The County of Kern issued 430 permits for construction of new privately-owned dwelling units. The housing affordability indicator fell from 25.0 to 23.7 percent. Meanwhile, the number of notices of loan default homeowners received from their mortgage bankers dropped from 712 to 626 and the number of homes lost to foreclosure decreased from 330 to 320.

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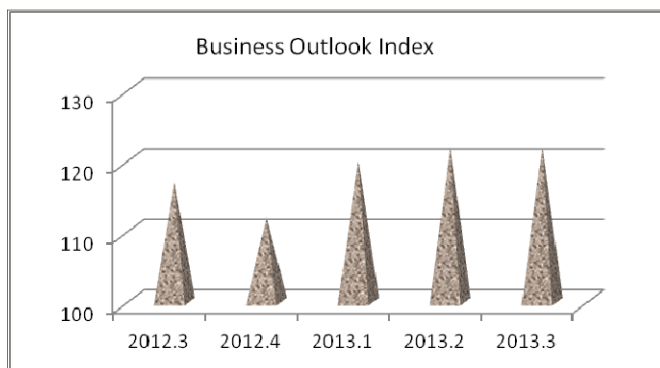
KERN BUSINESS CONFIDENT IN THIRD QUARTER

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB



Results of the Business Outlook Survey indicate that Kern County business managers are confident about local employment and business conditions. In the third quarter (July through September) of 2013, the *Business Outlook Index* stayed constant at 122. Four quarters ago, the index stood at 117.



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* decreased to 117 from 121. However, the *Future Conditions Index* inclined to 126 from 124. These results indicate that business managers, although not as confident about current business conditions, feel more optimistic about the future.

	Current Quarter	Previous Quarter	Four Quarters Ago
Business Outlook Index	122	122	114
Current Conditions Index	117	121	116
Future Conditions Index	126	124	119

Compared with the previous quarter survey, the percentage of positive responses rose to 39 from 34, while the percentage of negative responses jumped to 15 from 14. The percentage of neutral responses dropped to 49 from 54.

Employment Outlook:

Fifty-nine percent of interviewees reported that the number of jobs in their companies stayed constant this quarter. However, 28 percent said more jobs were available in their companies and 13 percent reported reduced employment.

Likewise, 55 percent perceived that the number of jobs to stay constant next quarter, whereas 27 percent expected their companies to hire more workers. The remaining 18 percent anticipated a smaller workforce.

Financial Outlook:

Thirty-five percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter. Thirty-six percent indicated increased sales and profits, whereas 29 percent stated reduced sales and profits.

Similarly, 44 percent expected financial conditions of their companies to remain constant next quarter. However, 46 percent anticipated increased sales and profits and 10 percent predicted reduced sales and profits.

Industry Outlook:

Fifty-seven percent of survey respondents perceived that employment and general business conditions of their industries remained the same as the previous quarter, while 29 percent felt these conditions improved and 14 percent indicated crumbling business conditions.

Forty-eight percent anticipated that the employment and general business conditions of their industries to stay unchanged next quarter. Yet, 42 percent expected progress and 10 percent felt otherwise.

Economic Outlook:

When asked about Kern County's economy, 45 percent of interviewees perceived no change this quarter. Nevertheless, 44 percent felt conditions improved and 11 percent said conditions worsened.

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THIRD QUARTER UPTICK IN BAKERSFIELD CONSUMER SENTIMENT

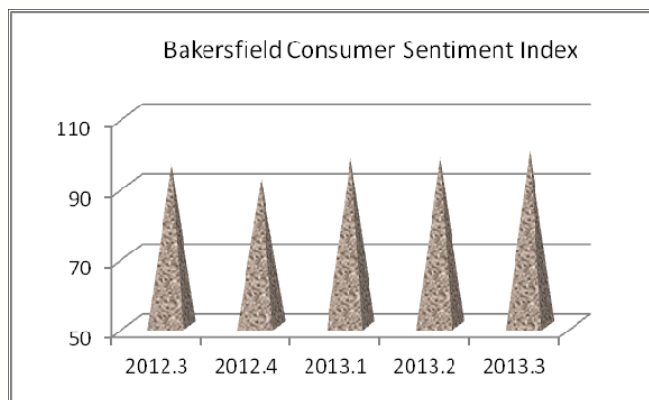
MARK EVANS

PROFESSOR AND CHAIR OF ECONOMICS , CSUB



The Bakersfield Consumer Sentiment Index showed modest improvement in the third quarter, increasing from 98 to 100. Meanwhile, the Thomson Reuters/ University of Michigan index measuring consumer sentiment at the national level remained unchanged at 82, falling back in August and September after a strong increase in July. The Bakersfield index has not shown significant movement since the first quarter of 2012 when it reached a value of 101.

Nationally, consumer sentiment has inched forward from 76 in early 2012. The magnitudes of the local and national indexes cannot be directly compared since they are based on different questions and formulas. What can be compared is each index's current position relative to its probability distribution since we began compiling the local index in 1999. There is little difference between local and national consumer sentiment - both indexes are mired at a level that is exceeded around 60 percent of the time. Consumer sentiment is not particularly bullish by historical standards at either level. Both the local and national indexes are based on random telephone surveys.



The Bakersfield index is disaggregated into sub-indexes measuring recent trends and future expectations. There is little difference between the two sub-indexes - the current trends sub-index is 99 in the most recent quarter, while the future expectations index is 100.

The sub-index measuring the current situation of household declined slightly from 102 in the second quarter to 99 in the third quarter. There was almost no change in the percent of respondents reporting that they spent more

than usual on discretionary items such as dining out, weekend outings, and entertainment (27 percent), but the percentage spending less than usual increased from 16 to 25 percent. The percent of respondents reporting their financial condition has improved in the past year increased from 24 to 27 percent. There also was a modest increase from 15 to 19 percent in the percentage reporting that their acquaintances in Kern County were better off, although the percent who thought local acquaintances became worse off increased from 16 to 29 percent.

The CSUB survey queries households regarding purchases of "big ticket" items, although responses to this set of question are not part of the index number calculation. Just ten percent of households reported purchasing a "big ticket" item compared to 30 percent in the second quarter and 15 percent four quarters ago. The changes in percent of respondents reporting various types of purchases were as follows: (1) furniture purchases were reported by just one percent of the sample compared to seven percent in the previous quarter; (2) appliance purchases were made by three percent of the sample compared to four percent in the second quarter; (3) TV and electronics purchases occurred in two percent of the sample, compared to six percent in the second quarter; (4) two percent reported buying a computer (no change from the previous quarter); (5) one percent reported purchasing an automobile compared to two percent in the second quarter; and (6) one percent reported making a home improvement compared to nine percent in the previous quarter.

The sub-index measuring expectations for the coming year increased from 94 to 100. The improvement was attributable to two factors: (1) increased willingness to make an expensive purchase in coming months and (2) a sharp decline in the percent of households reporting that their local acquaintances were apprehensive about the coming year. The share of households believing that this is a safe time to draw down savings or incur debt for an expensive purchase increased from 12 to 18 percent, while the percent who felt this is a risky time plummeted from 69 to 40 percent. The percent reporting that their acquaintances were fearful about the coming year decreased by 14 points from 32 to 18 percent, although the

(Continued on page 5)

percent reporting acquaintances were optimistic also declined (from 36 to 26 percent). Paradoxically, while households felt more secure than in the second quarter about making an expensive purchase, a decreased per-

centage felt their financial situation would improve in the coming year (36 percent compared to 48 percent previously).

Table 1: Index Values			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	100	98	96
Sub-index: Current Conditions	99	102	100
Sub-index: Future Expectations	100	94	92

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).	27 %	48 %	25 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	27 %	52 %	21 %
How your acquaintances in Kern County are doing financially compared to one year ago.	19 %	52%	29 %

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	36 %	43 %	21 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	26 %	56 %	18 %
	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?	18 %	42 %	40 %

Kern Business (Continued from page 3)

Likewise, 50 percent felt that economic conditions to remain unchanged next quarter. However, 38 percent anticipated the economy would get better and 12 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 local economy
- High oil and gas prices
- Rising real estate prices and increased construction

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

- American Healthcare Affordability Act
- Stringent state regulations for business
- Projected increase in the minimum wage rate

TRACKING KERN'S ECONOMY¹

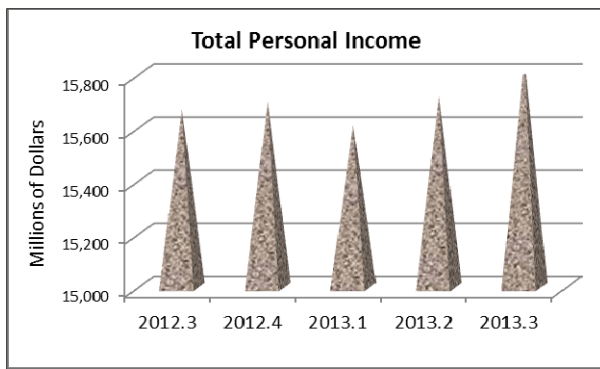
2013 THIRD QUARTER

ABBAS P. GRAMMY

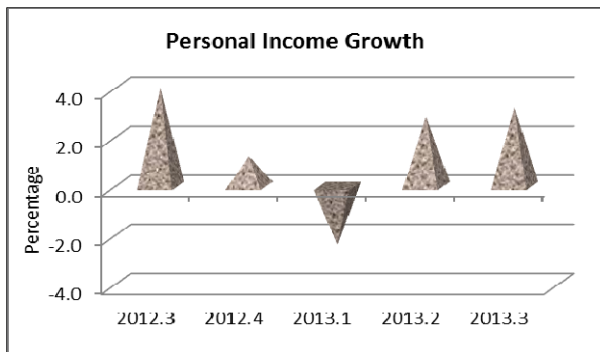
PROFESSOR OF ECONOMICS, CSUB

Economy

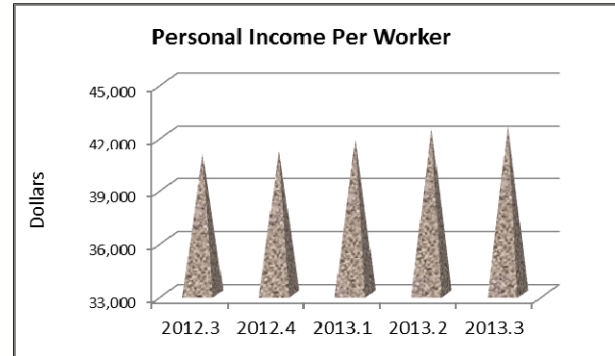
Personal Income - Kern County's total personal income (in constant 1996 dollars) increased \$130 million from \$15.72 billion in the second quarter to \$15.85 billion in the third quarter of 2013. The main factors contributing to this expansion were more jobs, increased business activity, reduced unemployment, and rising housing prices. Relative to four quarters ago, Kern County's economy generated \$180 million more income.



Growth of Personal Income - The gain of \$130 million of personal income translated into an annualized growth rate of 3.2 percent in the third quarter of 2013. Kern's economy expanded 2.8 percent in the previous quarter and 4.0 percent four quarters ago.



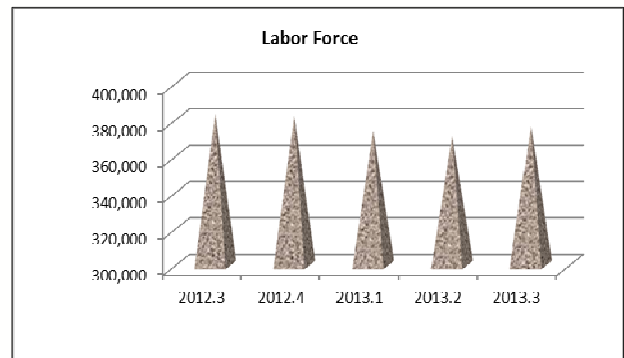
Personal Income Per Worker - The rise in total personal income was coupled with an increase in the labor force. As a result, personal income per worker increased \$120 to reach \$42,520 in the third quarter of 2013. Likewise, personal income per worker was up \$1,630 this quarter relative to four quarters 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.

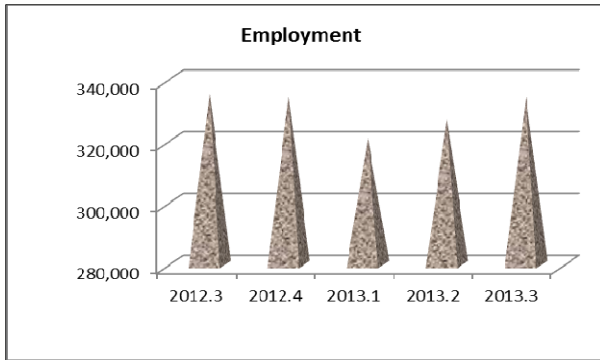
Labor Force - The civilian labor force increased by 5,500 members from 370,750 in the second quarter to 376,300 in the third quarter of 2013. However, 6,910 fewer workers were available for work this quarter relative to the third quarter of 2012.



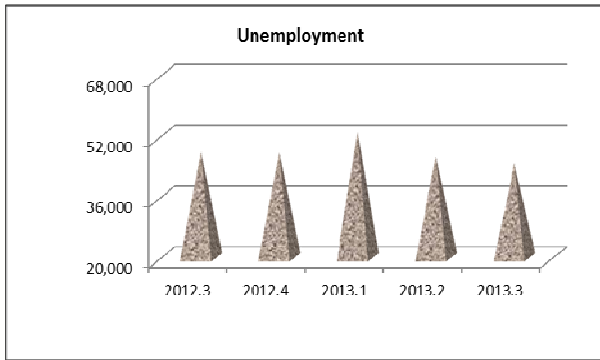
Employment - In the third quarter of 2013, Kern County's economy hired 7,330 more workers as total employment increased from 327,120 to 334,450. However, the county employed 960 fewer workers this quarter relative to the third quarter of last year.

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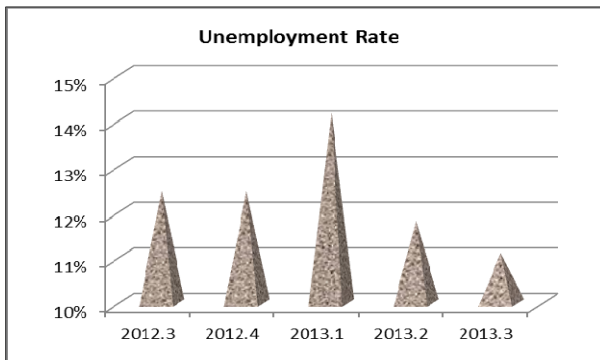
¹Source - Online databases: labormarketinfo.edd.ca.gov, bakersfieldgasprices.com, dqnews.com, economagic.com, bea.gov, bls.com, gpoaccess.gov, dairy.nu, msn.com, census.gov, kerndata.com, and bry.com



Unemployment - The number of jobless workers dropped by 1,870 as total unemployment declined from 46,630 in the second quarter to 44,760 in the third quarter of 2013. Likewise, 3,040 fewer workers were unemployed this quarter than four quarters ago.



Unemployment Rate - In the meantime, the rate of unemployment dropped from 11.8 percent in the second quarter to 11.1 percent in the third quarter of 2013. Similarly, Kern County's unemployment rate was 12.5 percent four quarters ago.

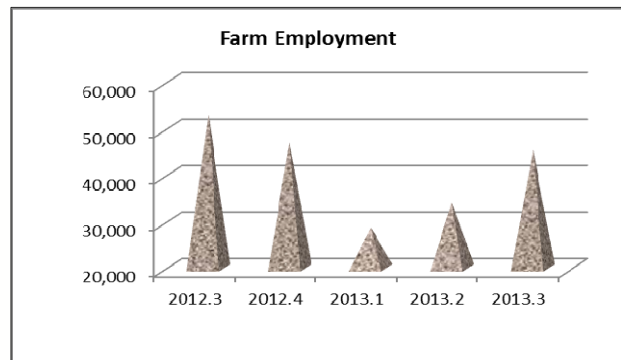


The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate varied between 6.1 percent in Ridgecrest and 29.2 percent in Arvin. In Bakersfield, the rate of unemployment was 7.5 percent.

Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Ridgecrest	6.1	Oildale	11.5
Inyokern	6.6	Mojave	12.2
Tehachapi	6.8	Lake Isabella	12.9
Bakersfield	7.5	Shafter	19.6
California City	8.2	Lamont	19.7
Rosamond	9.0	Wasco	20.4
Frazier Park	9.5	McFarland	23.0
Wofford Heights	10.4	Delano	28.1
Taft	10.7	Arvin	29.2

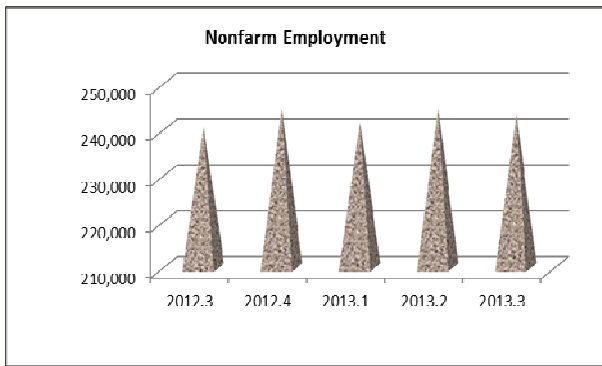
Note: City-level data are not adjusted for seasonality and "informal" market workers.

Farm Employment - In the third quarter of 2013, Kern County hired 11,330 more workers. Farm employment increased from 34,120 to 45,450. However, the farming industry hired 7,660 fewer workers this quarter than four quarters ago.

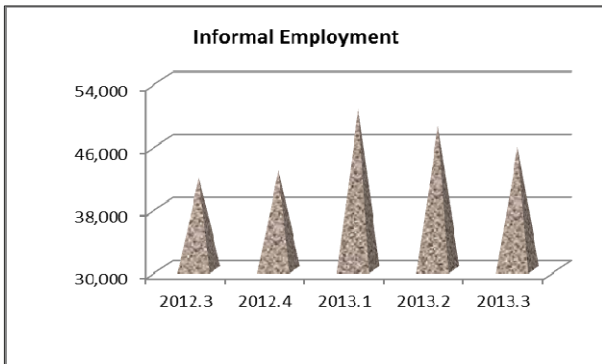


Nonfarm Employment - Local nonfarm industries employed 1,330 fewer workers. The number of nonfarm jobs decreased from 244,670 in the second quarter to 243,340 in the third quarter of 2013. Nonetheless, nonfarm industries employed 2,770 more workers this quarter than four quarters ago.

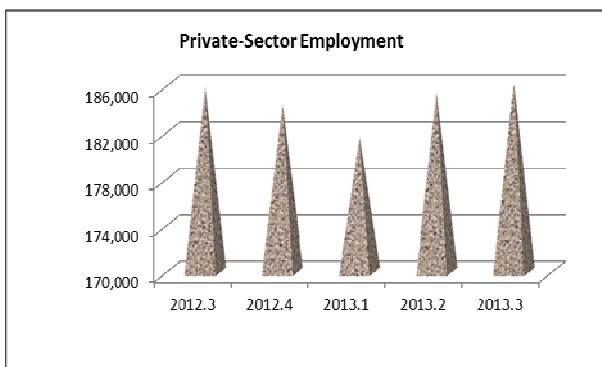
Several nonfarm industries added job: oil and gas extraction and well drilling, construction, manufacturing, wholesale trade, retail trade, transportation and warehousing, information, and real estate. However, jobs were cut in leisure and hospitality, and professional and business services, educational services, 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 third quarter of 2013, the number of informal workers decreased by 2,670 from 48,330 to 45,660. However, the informal labor sector hired 3,930 more workers this quarter relative to the third quarter of last year.

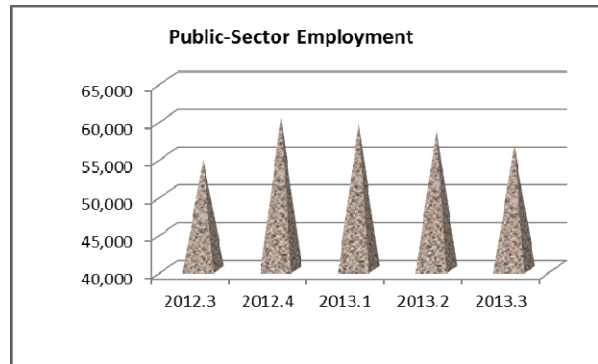


Private-Sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the third quarter of 2013, private companies hired 900 more workers as their employment increased from 185,470 to 186,370. Likewise, private-sector employers hired 430 more workers this quarter than four quarters ago.



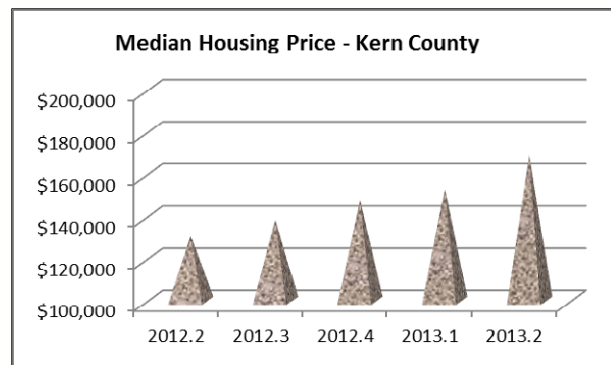
Public-Sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city

agencies and public education. In the third quarter of 2013, government agencies hired 2,230 fewer workers as their employment decreased from 58,830 to 56,600. However, the public sector employed 1,970 more workers this quarter relative to four quarters ago.

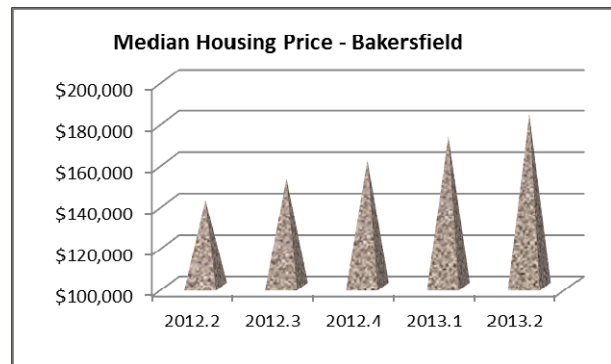


Housing Market

Housing Price - In the third quarter of 2013, Kern County's housing market conditions continued to improve. The median sales price for all residential units appreciated \$10,300 (or 6.1 percent) from \$169,200 to \$179,500. Likewise, the county's median housing price was \$41,000 (or 31.4 percent) higher than that of four quarters ago.



In Bakersfield, the median housing price appreciated \$10,700 (or 5.8 percent) from \$183,700 in the second quarter to \$194,000 in the third quarter of 2013. Similarly, the city's median housing price was \$41,900 (or 29.6 percent) higher than that of four quarters ago.

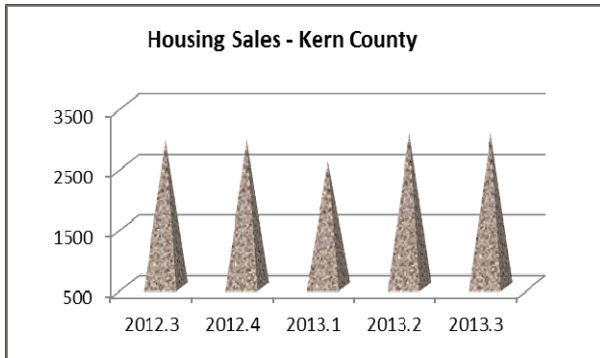


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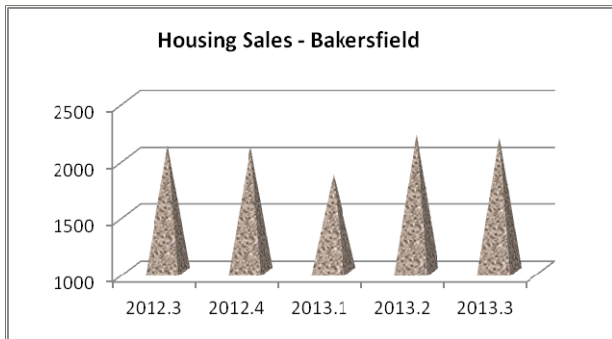
Housing prices varied across the county. Among selected cities, the median sales price appreciated in Bakersfield, Ridgecrest, Rosamond, Taft, and Tehachapi.

Location	Median Price 2013.3	Median Price 2013.2	Price Change 2013.3 to 2013.2	Price Change 2013.3-2013.2
Kern County	\$179,500	\$169,200	\$10,300	6.1%
Bakersfield	\$194,000	\$183,300	\$10,700	5.8%
Delano	\$118,500	\$158,200	-\$39,700	-25.1%
Ridgecrest	\$143,500	\$140,900	\$2,600	1.8%
Rosamond	\$179,250	\$129,100	\$50,150	38.8%
Taft	\$89,500	\$82,300	\$7,200	8.7%
Tehachapi	\$183,900	\$171,500	\$12,400	7.2%

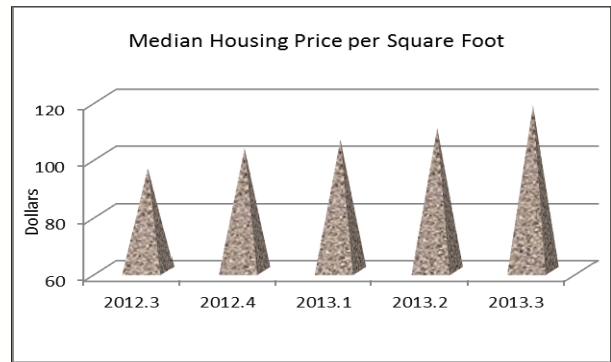
Housing Sales - In Kern County, 12 more homes were sold as total sales increased from 3,048 in the second quarter to 3,060 in the third quarter of 2013. Likewise, 131 more units were sold this quarter relative to the third quarter of last year.



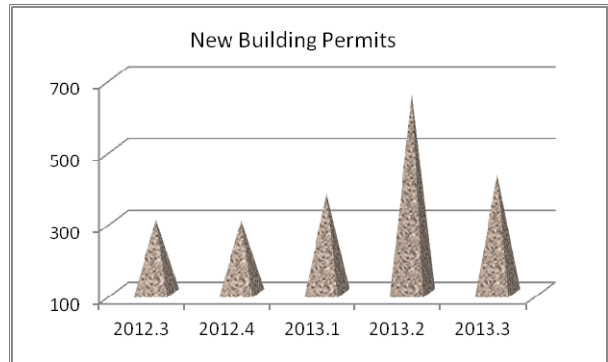
In Bakersfield, 27 fewer homes were sold as sales of residential units decreased from 2,213 in the second quarter to 2,186 in the third quarter of 2013. However, sales were up by 69 units this quarter relative to the third quarter of last year.



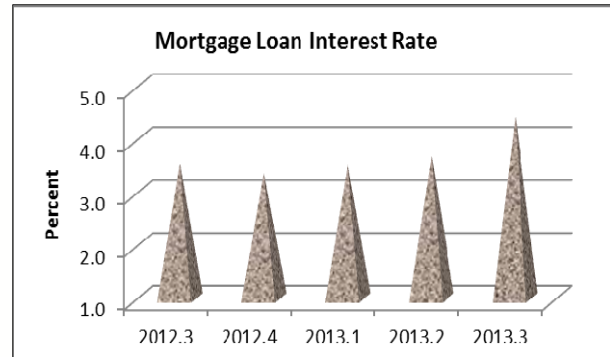
Housing Price per Square Foot - The median sales price per square foot of housing area inclined \$8 from \$110 in the second quarter to \$118 in the third quarter of 2013. Likewise, the median housing price per square foot has gone up \$24 since the third quarter of last year.



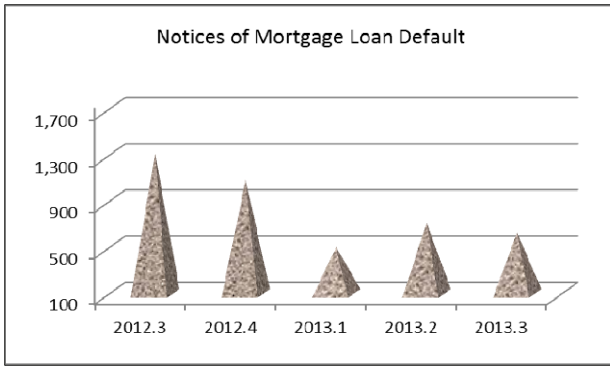
New Building Permits - In the third quarter of 2013, Kern County issued 430 permits construction of new privately-owned dwelling units. The number of new building permits increased was 654 last quarter and 305 four quarters ago.



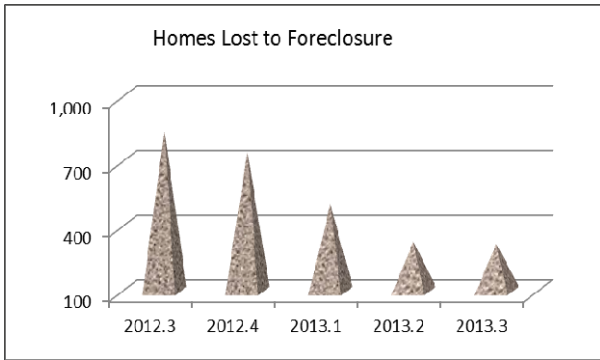
Mortgage Interest Rate - In the third quarter of 2013, the interest rate on thirty-year conventional mortgage loans increased from 3.69 to 4.44 percent. Four quarters ago, the mortgage loan interest rate was 3.55 percent.



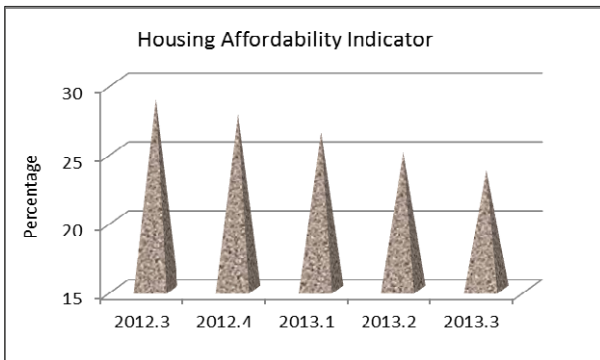
Housing Foreclosure Activity - In the third quarter of 2013, the county's foreclosure activity declined from 712 to 626. As a result, 86 fewer homeowners received notices of loan default from their mortgage bankers. Likewise, the number of default notices has gone down by 687 since the third quarter of last year.



The number of homes lost to foreclosure decreased from 330 in the second quarter to 320 in the third quarter of 2013. As a result, 10 fewer homes were lost to foreclosure. Likewise, 520 fewer homes were lost to foreclosure this quarter relative to four quarters ago.

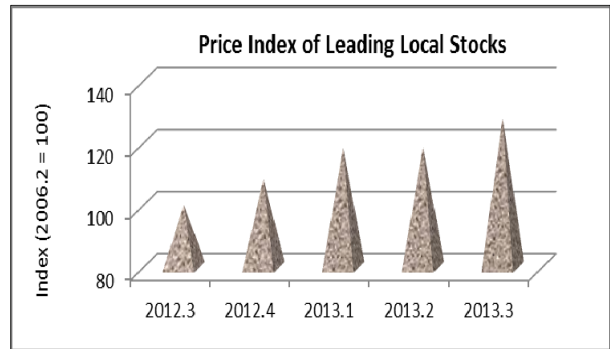


Housing Affordability - Median housing prices divided by median household income is a measure of housing affordability. With large appreciation of housing prices and modest growth of household income, the affordability indicator declined from 25.0 percent in the second quarter to 23.7 percent in the third quarter of 2013. The housing affordability indicator was 28.9 percent four quarters ago.

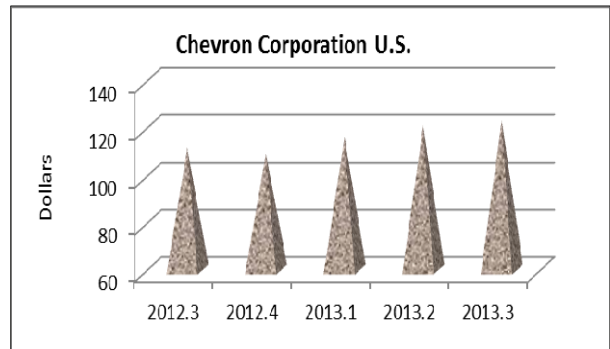


Stock Market

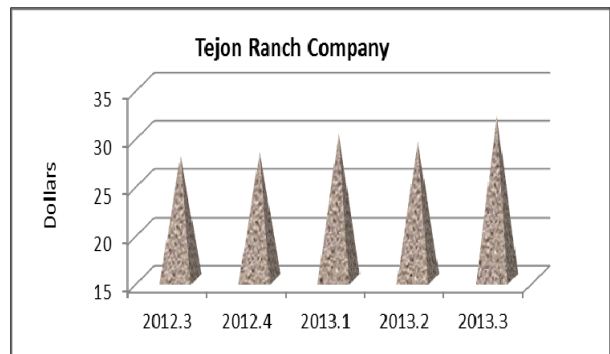
In the third quarter of 2013, the composite price index (2012.3 = 100) of the five publically traded companies doing business in Kern County increased 9.2 points from 118.5 to 127.7. The index was 27.7 points higher than that of four quarters ago. Average “close” prices were measured for five local market-movers: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.



Chevron Corporation US - CVX gained \$2.17 (or 1.8 percent) per share as its price increased from \$120.69 in the second quarter to \$122.86 in the third quarter of 2013. Relative to the third quarter of 2013, CVX has made \$11.45 (or 10.3 percent).

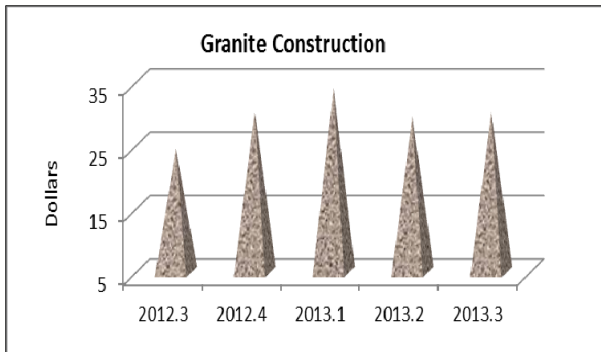


Tejon Ranch Company - TRC made \$2.67 (or 9.0 percent) per share as its stock price climbed from \$29.24 in the second quarter to \$31.88 in the third quarter of 2013. Likewise, TRC was up \$4.17 (or 15.0 percent) relative to the third quarter of 2013.

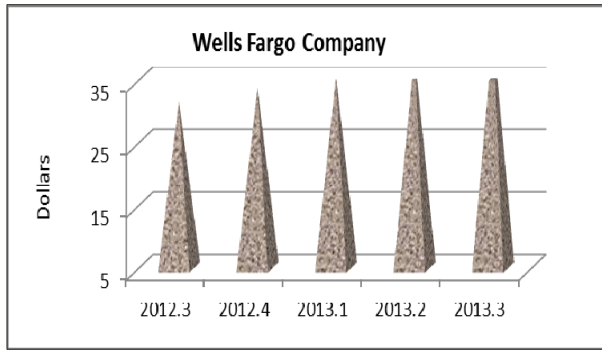


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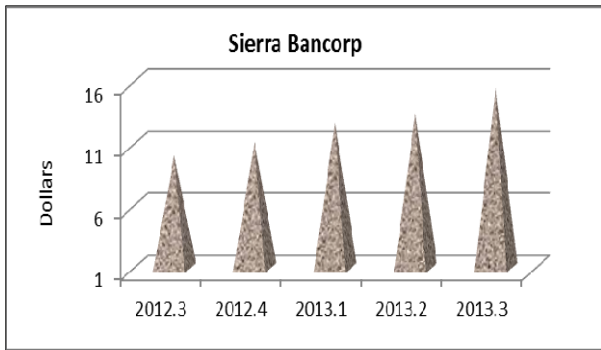
Granite Construction - GVA gained 66¢ (or 2.2 percent) per share in the third quarter of 2013 as its stock price increased from \$29.59 to \$30.25. Similarly, GVA has gone up \$5.77 (or 23.6 percent) since the third quarter of 2012.



Wells Fargo Company - WFC made \$3.42 (or 8.7 percent) per share as its stock price ascended from \$39.27 in the second quarter to \$42.69 in the third quarter of 2013. Relative to one year ago, WFC was up \$11.04 (or 34.9 percent).



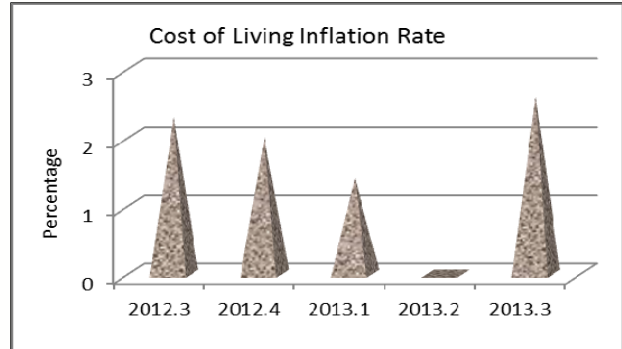
Sierra Bancorp - BSRR gained \$2.13 (or 15.9 percent) per share as its price inclined from \$13.42 in the second quarter to \$15.55 in the third quarter of 2013. Likewise, BSRR has gone up \$5.52 (or 55.0 percent) since the third quarter of 2012.



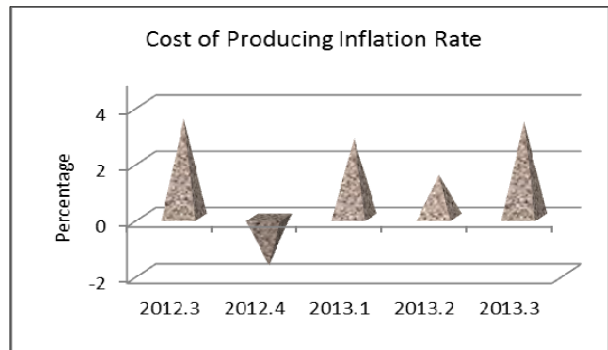
Inflation

Cost of Living - The Consumer Price Index for all urban areas (1982-84 = 100) inclined from 232.0 in the second quarter to 233.6 in the third quarter of 2013. As a

result, inflation for the cost of living accelerated at an annual rate of 2.6 percent. The cost of living inflation rate was -0.2 percent last quarter and 2.3 percent four quarters ago.



Cost of Producing - The Producer Price Index for finished consumer goods (1982 = 100) increased from 210.0 in the second quarter to 211.8 in the third quarter of 2013. As a result, the cost of production soared at an annual rate of 3.4 percent. The cost of producing inflation rate was 1.5 percent last quarter and 3.5 percent four quarters ago.

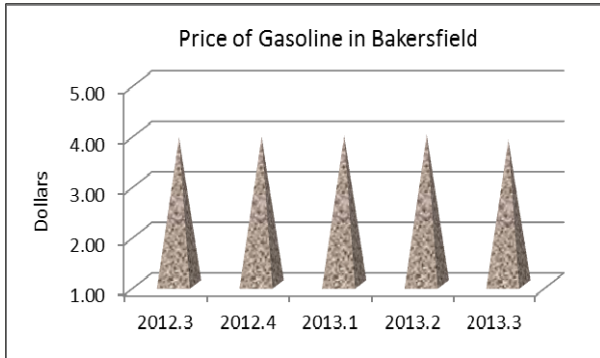


Cost of Employment - The Employment Cost Index (December 2005 = 100) for all civilian workers increased from 119.0 in the second quarter to 119.5 in the third quarter of 2013. The cost of employment grew at an annualized rate of 1.7 percent. The cost of employment inflation rate was 2.0 percent last quarter and 2.5 percent four quarters ago.

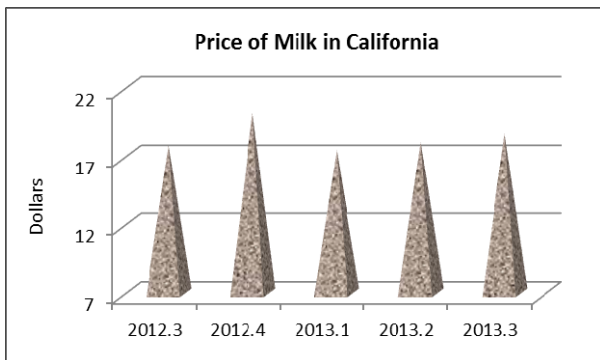


Commodity Prices

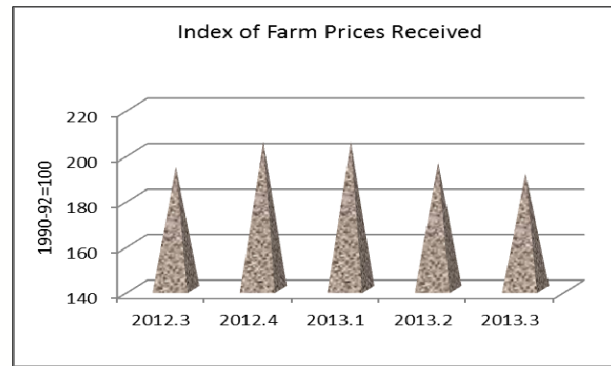
Price of Gasoline - In Bakersfield, the average retail price of regular gasoline decreased 11¢ (or 2.8 percent) per gallon from \$3.97 in the second quarter to \$3.86 in the third quarter of 2013. Compared with the third quarter of last year, the average gasoline price was down 5¢ (or 1.3 percent).



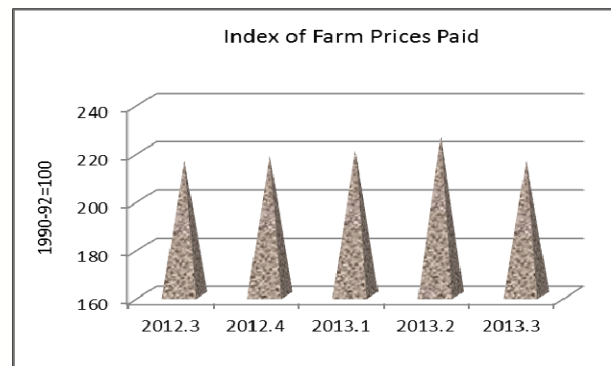
Price of Milk - The unit price of California’s Class III milk increased 62¢ (or 3.4 percent) from \$18.04 in the second quarter to \$18.66 in the third quarter of 2013. Also, milk prices have gone up 86¢ (or 4.8 percent) since the third quarter of 2012.



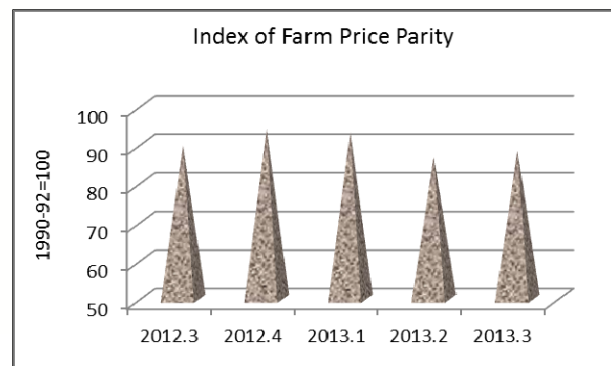
Farm Prices - In the third quarter of 2013, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) dropped 5 points from 196 to 191. Likewise, the index was 3 points higher than that of four quarters ago.



Meanwhile, the national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents dropped 10 points to reach 216. The index value was just the same this quarter compared with 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 third quarter of 2013, the gap between prices paid and prices received narrowed as the Index of Farm Price Parity rose from 87 to 88 percent. Four quarters ago, the price ratio was 90 percent.



At a Glance (Continued from page 2)

In Bakersfield, the average retail price of regular unleaded gasoline decreased 11¢ from \$3.97 to \$3.86 per gallon. The unit price of California’s Class III milk increased 62¢ from \$18.04 to \$18.66. The index of prices farmers received for their outputs dropped 5 points to reach 191 and the index of prices farmers paid for their inputs went down 10 point to arrive at 216. As a result,

the gap between output prices farmers received and input prices farmers paid narrowed from 87 to 88 percent. The composite price index of the top five locally traded stocks rose from 118.5 to 127.7. The average stock price improved for Chevron Corporation, Wells Fargo Company, Tejon Ranch Company, Sierra Bancorp, and Granite Construction.

I WISH I WERE A CEO, NOT!

ABBAS P. GRAMMY

I always wondered why CEOs make so much money, but university professors earn so little. While S&P 500 CEOs are compensated millions of dollars, salaries of university professors seldom break the six-digit mark. While most CEOs hold college degrees, university professors endure several years of graduate education, passing rigorous exams and completing independent research to earn doctoral degrees. So, how do you explain such a large monetary disparity? Consider the following hypothesis.

CEOs are paid to add value to their companies in terms of revenue growth and stock price hicks. Shareholders do not mind paying their CEOs. They view successful CEOs as indispensable leaders and believe CEOs earn their rewards since they help their companies meet financial targets and strategic goals. Likewise, university professors are paid to add value to their institutions. They help students accumulate human capital and contribute to the advancement of science and technology. *While CEOs' value-added is easily measureable, professors' value-added is hard to quantify.*

Companies determine CEO pay using a method known as "peer benchmarking." Accordingly, companies base executive compensation not on individual CEO's performance, but on what other companies pay their CEOs.¹ For the purpose of illustration, assume XYZ Technologies is about to offer a compensation package to a new CEO. The company can base its offer on the average CEO compensation of S&P 500 companies, which includes cash and kind items totaling about \$11.4 million.² In addition, the XYZ Technologies adds a premium to the average CEO salary based on what top industry executives make. Bonuses, awards, options, and perks are agreed upon in the employment contract. The realized total compensation as well as annual salary increases will largely depend on the success of the CEO in generating revenues and improving stock prices.

Some American CEOs get especially lucrative compensation packages. Of the top ten highest paid CEOs in 2010, three were health-care providers and two were in real estate investment.³ John Hammergren, McKesson's CEO, was the highest paid executive with a total realized compensation of \$145.3 million. The lion's share of that money, \$112 million, was a large volume of stock options he cashed out after holding them for years.

The balance of his compensation consisted of salary, bonus, pension, options, and perks. Among perks, he had a chauffeur to drive his company car; free use of the corporate jet for personal travel; and an extra \$17,000 a year to pay for a financial planner. During his 13-year tenure, McKesson gained more than \$500 million in value.

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The rationale for offering such lucrative compensation packages is that well-trained and experienced CEOs add value to their firms during their tenure several times more than their paid compensation. Based on this assertion, nearly 70 percent of corporate shareholders say that CEOs are being compensated correctly.⁵ Interestingly, some CEOs received pay packages for not doing their jobs well. There were corporations in tenuous positions that have CEOs with sizeable compensation. For instance, the Cisco Systems CEO received nearly \$19 million in 2010, even as the company's stock price fell 31.4 percent and he let 11,500 employees go.⁶

2010 Average CEO Compensation of S&P 500 Corporations	
Salary	\$1,093,989
Bonus	\$251,413
Stock Awards	\$3,833,052
Option Awards	\$2,384,871
Non-Equity and Deferred Compensation Earnings	\$1,182,057
Other Perks	\$215,911
Realized Total Compensation	\$11,358,445

¹Elchler, A., "Executive Pay Spiraling Upward as Corporations Race to Pay their Bosses the Most," The Huffington Post, October 5, 2011, http://www.huffingtonpost.com/2011/10/05/executive-pay-compensation_n_995223.html

²AFL-CIO: America's Union Movement http://www.aflcio.org/corporatewatch/paywatch/paywatch2011_indexmo

³Sherter, A., "Highest-Paid CEOs: Top Earner Takes Home \$145 Million," CBS Money Watch, December 15, 2011, [http://www.cbsnews.com/8301-505123_162-57343611/highest-paid-ceos-top-earner-takes-home-\\$145-million/](http://www.cbsnews.com/8301-505123_162-57343611/highest-paid-ceos-top-earner-takes-home-$145-million/)

⁴Rivlin, G., "He's One of the Nation's Highest-Paid CEOs – and You've Never Heard of Him," The Daily Beast, January 2, 2012, <http://www.thedailybeast.com/articles/2012/01/02/he-s-one-of-the-nation-s-highest-paid-ceos-and-you-ve-never-heard-of-him.html>

⁵Bradford, H., "CEOs Compensated Correctly, Vast Majority of Shareholders Say," The Huffington Post, October 24, 2011, http://www.huffingtonpost.com/2011/10/24/ceo-compensation-correct-shareholders_n_1028668.html

⁶Carew, S., Cisco Layoffs: 11,500 Employees to be Let Go," Reuters, July 18, 2011, http://www.huffingtonpost.com/2011/07/18/cisco-layoffs_n_902006.html

Table 3: Top 10 Highest-Paid CEOs of 2010 (Source: GMI)

Company	CEO Name	Industry	Total Realized Compensation
McKesson Corporation	John H. Hammergren	Health Care Providers & Services	\$145,266,971
Omnicare, Inc.	Joel F. Gemunder	Health Care Providers & Services	\$98,283,242
TRW Automotive Holdings Corp.	John C. Plant	Auto Components	\$76,841,646
Verisk Analytics, Inc.	Frank Coyne	Professional Services	\$69,416,726
CVS Caremark Corporation	Thomas M. Ryan	Food & Staples Retailing	\$68,079,823
General Growth Properties, Inc.	Adam Metz	Real Estate Investment Trusts (REITs)	\$66,707,460
Polo Ralph Lauren Corporation	Ralph Lauren	Textiles, Apparel & Luxury Goods	\$66,651,515
Vornado Realty Trust	Michael D. Fascitelli	Real Estate Investment Trusts (REITs)	\$64,402,468
Aetna Inc.	Ronald A. Williams	Health Care Providers & Services	\$57,787,786
GAMCO Investors, Inc.	Mario J. Gabelli	Capital Markets	\$56,608,736

Now, let us look at compensation of university professors. Typically, they are given nine-month contracts with unpaid winter and summer breaks. Most universities divide academic year salaries into twelve equal payments for accounting purposes. Some universities provide generous fringe benefits that amount to about one-third of faculty salary. Nonetheless, universities offer no bonuses or perks. To earn additional compensation, some professors teach intermission courses, carry out consulting projects, or receive research grants. However, such additional compensations are transitory and do not count in their retirement benefits.

At the California State University System (CSU), a teaching institution, the academic-year salary of full professors averaged \$94,700 in 2010. The highest paying CSU campus was San Diego and the lowest paying campus was Humboldt. At the University of California System (UC), a research institution, the academic-year salary of full professors averaged \$134,100.⁷ The highest paying UC campus was Berkeley and the lowest paying campus was Santa Cruz. Like CEOs, university professors do not offer uniform services. Some professors excel in teaching and/or scholarship. Others, however, lose motivation to perform their best upon receiving the award of tenure.

The CEO-Full Professor compensation disparity is rather remarkable. The average CEO compensation of \$11.4 million is 120 times more than the average CSU academic-year salary and 85 times greater than that of the UC. *Oh, yes! I wish I were a CEO!* But, wait a minute. Don't be so greedy. Let's look at some pluses and minuses:

- CEOs responsibilities require 24/7 time commitment; university professors split time between teaching, research, and service at own discretion.
- CEOs are worried about dismissal; university professors enjoy lifetime job security.
- CEOs hire and fire employees; university professors evaluate colleagues for performance and recommend them for tenure, promotion, or termination.
- CEOs own mansions, cars, yachts, and aircrafts and take expensive vacations around the globe; university professors enjoy comfortable living with all basic necessities.
- CEOs must dress in three-piece suits all day long; university professors are free to dress down.
- CEOs receive satisfaction from annual bonuses and stock option profits; university professors are gratified with student achievement, research publication, and teaching recognition.
- CEOs retire to play golf and spend money; university professor remain physically and intellectually active in retirement years.
- CEOs spouses and children take advantage of massive family wealth; university professors emphasize education in raising children.

2010 Academic Year Salary of Full Professors

CSU System	Average Salary	UC System	Average Salary
Bakersfield	\$94,600	Berkeley	\$149,100
Chico	\$92,600	Davis	\$123,800
Dominguez Hills	\$94,400	Irvine	\$132,000
East Bay	\$96,700	Los Angeles	\$153,700
Fresno	\$96,100	Riverside	\$125,100
Fullerton	\$96,300	San Diego	\$136,300
Humboldt	\$90,600	Santa Barbara	\$132,000
Long Beach	\$95,600	Santa Cruz	\$120,500
Los Angeles	\$95,700	San Francisco	n.a.
Monterey Bay	\$91,000	Merced	n.a.
Northridge	\$93,100		
Pomona	\$97,100		
Sacramento	\$92,200		
San Bernardino	\$93,900		
San Diego	\$99,800		
San Francisco	\$98,700		
San Jose	\$97,000		
San Luis Obispo	\$96,700		
San Marcos	\$94,700		
Sonoma	\$90,900		
Stanislaus	\$90,700		
Average	\$94,686		\$134,063

I see this list is long enough to make me content with my chosen occupation, a university professor.

⁷Data from AAUP faculty Salary Survey, The Chronicle of Higher Education, January 8, 2012, <http://chronicle.com/stats/aaup/index.php?action=result&year=2011&state=California&search=&category=IIA&institution=0&offset=25&withRanks=1&sort=institution&limit=25&showa11=0>