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SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



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KERN ECONOMIC JOURNAL is a quarterly publication of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the economic well-being of Kern County. The journal provides useful information and data that can help the community make informed economic decisions.

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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!

Kern County Hospitals Recession-Proof

Hospitals are a major employer of the health-care industry in Kern County. All thirteen hospitals serving Kern County account for nearly thirty percent of health-care employment. Moreover, employment growth of local hospitals has been remarkable. Between 1990 and 2013, hospital employment grew 166 percent from 4,400 to 7,300. This remarkable expansion, though, has not been smooth.

In the expansion of the 1990’s, hospitals added 800 jobs as employment grew at an average annual rate of 1.8 percent. In the recession 2001-2002, hospitals cut 500 jobs causing hospital employment to drop 4.9 percent. In the ensuing recovery of 2003-2007, hospitals added 200 jobs, resulting in an average growth rate of 3.3 percent. During the Great Recession of 2008-2009, hospital employment enlarged by 700 or 6.2 percent. Employment growth continued at rate of 4.2 percent in the recovery of 2010-2013, when hospitals added 1,100 jobs.

This rapid employment growth leads to an insightful observation. While hospital employment declined 4.9 percent during the recession of 2001-2002, it grew 6.2 percent in the Great Recession of 2008-2009. This observation reveals that Kern County’s hospital industry has become more stable and less vulnerable to recessions. While Kern County lost a significant number of jobs during this severe, nationwide recession, the local hospital industry continued to create more jobs.

Source: California Labor Market Information

Time Period	Employment Growth	
	Number	Percentage
Expansion - 1990-2000	800	1.8
Recession - 2001-2002	-500	-4.9
Recovery - 2003-2007	200	3.3
Recession - 2008-2009	700	6.2
Recovery - 2010-2013	1,100	4.2

ECONOMY AT A GLANCE!

2013 FOURTH QUARTER

ABBAS P. GRAMMY

National Economy

The Gross Domestic Product (GDP) increased at an annual rate of 3.2 percent in the fourth quarter and 1.9 percent across the full year, according to advance estimates released by the Bureau of Economic Analysis. The increase in real GDP in the fourth quarter primarily reflected positive contributions from personal consumption expenditures, exports, non-residential investment, inventory investment, and local government spending. These gains were partially offset by lower federal government spending, residential fixed investments, and imports.

The Conference Board's Index of Leading Economic Indicators – a measure of future economic activity – improved from 96.6 to 98.4 indicating continued economic growth over the next six to nine months. However, the University of Michigan's Consumer Sentiment Index slipped from 82 to 77 due to weak readings in October and November. The rate of unemployment declined from 7.2 to 7.0 percent. In the meantime, the cost of living increased at an annual rate of 0.9 percent; the cost of producing slipped 4.7 percent; and the cost of employment rose 2.0 percent.

State Economy

In California, the unemployment rate dropped to 8.2 from 8.8 percent. Among counties, San Francisco (4.9 percent), Orange (5.6 percent), San Luis Obispo (5.9 percent), Santa Clara (6.1 percent), San Diego (6.8 percent), and Sacramento (8.0 percent) had unemployment rates below the state average. However, Los Angeles (9.2 percent), Riverside (9.4 percent), and Fresno (12.4 percent) had unemployment rates above the state average.

The state's civilian labor force shrunk by 135,100 members of whom 8,900 workers lost jobs and 126,200 fewer workers were no longer counted as unemployed. While farming enterprises employed 51,400 fewer workers, nonfarm industries hired 242,500 more workers. A wide range of industries added jobs: mining, retail trade, transportation and warehousing, information, professional and business services, educational services, health-care and social assistance, and state and local governments. In contrast, jobs were lost in logging, construction, manufacturing, finance and insurance, real estate, leisure and hospitality, and federal government.

Local Economy

In Kern County, household perceptions remained neutral about employment and financial conditions of their families and relatives as the *Bakersfield Consumer Sentiment Index* stuck at 100. Meanwhile, local businesses became less op-

timistic about local employment and financial conditions as the *Kern County Business Outlook Index* slipped to 119 from 122.

In the meantime, the county's economy expanded at an annual rate of 3.8 percent. Kern's economy generated \$16 billion in real personal income, \$150 million more than the previous quarter. However, personal income per worker lost \$120 to reach \$42,400.

Labor market conditions improved in the fourth quarter of 2013. The county hired 2,300 more workers. While the farming industry offered jobs to 700 fewer workers, non-farm enterprises hired 5,630 more workers. Private enterprises employed 2,230 more workers and local government agencies, including public schools, offered jobs to 3,400 more laborers. Meanwhile, 1,500 fewer workers were unemployed, dropping the rate of unemployment from 11.9 to 11.5 percent. While below the county average, the rate of unemployment was 5.9 percent in Ridgecrest, 6.5 percent in Tehachapi, 7.2 percent in Bakersfield, and 8.2 percent in California City.

The housing market recovery came to an unexpected halt. The county's median sales price for all residential units depreciated \$2,700 (or 1.5 percent) from \$179,500 to \$176,800. In Bakersfield, the median housing price depreciated \$600 (or 0.3 percent) from \$194,000 to \$193,600. In Kern County, 381 fewer homes were sold as total sales decreased from 3,060 to 2,679. In Bakersfield, 310 fewer homes were sold as sales of residential units declined from 2,186 to 1,876. However, the County of Kern issued 547 permits for construction of new privately-owned dwelling units. Housing became slightly less affordable as the affordability indicator grew to 24.0 from 23.7 percent. Meanwhile, the number of notices of loan default homeowners received from their mortgage bankers dropped from 626 to 584 and the number of homes lost to foreclosure decreased from 320 to 309.

In Bakersfield, the average retail price of regular unleaded gasoline decreased 22¢ from \$3.86 to \$3.64 per gallon. The unit price of California's Class III milk increased \$1.11 from \$18.66 to \$19.77. The index of prices farmers received for their outputs dropped 7 points to reach 184 and the index of prices farmers paid for their inputs went down 2 point to arrive at 214. As a result, the gap between output prices farmers received and input prices farmers paid widened from 88 to 86 percent. The composite price index of the top five locally traded stocks rose from 118.2 to 122.2. While the average stock price improved for Wells Fargo Company, Granite Construction, Tejon Ranch Company, and Sierra Bancorp, it declined for Chevron Corporation.

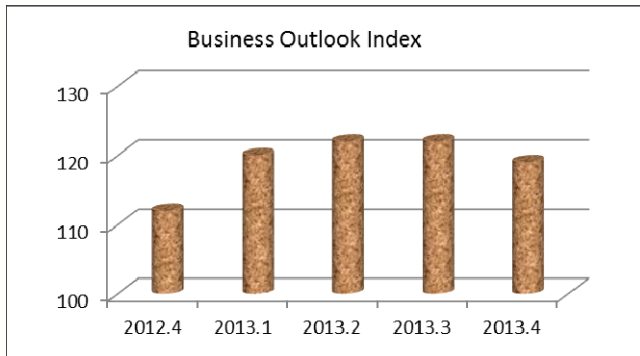
KERN BUSINESS STILL CONFIDENT

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. However, their degree of confidence has slightly eroded. In the fourth quarter (October through December) of 2013, the *Business Outlook Index* dropped to 119 from 122. Yet, local business managers are much more optimistic relative to one year ago as the index stood 7 points higher.

Compared with the previous quarter survey, the percentage of positive responses decreased from 39 to 34, while the percentage of neutral responses rose from 49 to 52. However, the percentage of negative responses declined from 15 to 14.



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.

Kern County Business Outlook			
	Current Quarter	Previous Quarter	Four Quarters Ago
Business Outlook Index	119	122	112
Current Conditions Index	116	117	114
Future Conditions Index	122	126	111

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* dropped to 116 from 117 and the *Future Conditions Index* fell to 122 from 126. These results indicate that business managers are slightly less optimistic about currently and future business conditions.

Employment Outlook:

Sixty-four percent of interviewees reported that the number of jobs in their companies stayed constant this quarter. However, 25 percent said more jobs were available in their companies and 11 percent reported reduced employment.

Likewise, 59 percent perceived that the number of jobs would stay constant next quarter, whereas 23 percent expected their companies to hire more workers. The remaining 18 percent anticipated a smaller workforce.

Financial Outlook:

Sixty-five percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter, whereas 12 percent indicated increased sales and profits and 23 percent stated reduced sales and profits.

Similarly, 64 percent expected financial conditions of their companies would remain constant next quarter. However, 24 percent anticipated increased sales and profits and 12 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 36 percent felt these conditions improved and 10 percent indicated crumbling business conditions.

Thirty-four percent anticipated that the employment and general business conditions of their industries would stay unchanged next quarter. Yet, 47 percent expected progress and 19 percent felt otherwise.

(Continued on page 5)

BAKERSFIELD CONSUMER SENTIMENT UNCHANGED

MARK EVANS

PROFESSOR AND CHAIR OF ECONOMICS , CSUB



The Bakersfield Consumer Sentiment Index stayed stuck at 100 in the fourth quarter. The Bakersfield index has not shown significant movement all year, sitting at 98 for the first half of the year and 100 in the second half. Meanwhile, the Thomson Reuters/University of Michigan index measuring consumer sentiment at the national level slipped from 82 to 77 due to weak readings in October and November. Like the local sentiment index, the national index didn't show positive momentum in 2013, ending the year right where it started off in the first quarter -- at 77.

Both the local and national indexes are based on random telephone surveys. Their magnitudes 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 frequency distribution of readings since CSUB's Economics Department began compiling the local index in 1999. Both indexes are mired in the bottom half of their readings since 1999.

The Bakersfield index is disaggregated into sub-indexes measuring current trends and future expectations. A slight decline in the current trends index was offset by a slight increase in future expectations, leaving the aggregate index unchanged at 100.

The sub-index measuring the current situation of household declined slightly from 99 in the third quarter to 97 in the fourth quarter. This was due to six percent of the

fourth quarter sample shifting their response from "more than usual" to "same as usual" when asked about recent spending on discretionary items such as dining out, weekend outings, or entertainment. There was no substantive change in the reporting of how one's households or acquaintances were doing financially compared to one year ago.

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 six percent of households reported purchasing a "big ticket" item compared to ten percent in the third quarter, making the final three months of the year the worst quarterly result of 2013 in terms of spending on consumer durable goods. One percent of respondents reports spending on each of the following: furniture, appliance, computer, and home improvement. Two percent purchased electronics goods, while no one reported purchasing a car.

The sub-index measuring expectations for the coming year increased slightly from 100 to 102. The improvement was almost exclusively attributable to five percent fewer respondents indicating this is a risky time to use savings or incur debt to purchase a big ticket item. This part of the sample instead provided a neutral response, not going so far as to indicate it is a safe time to buy.

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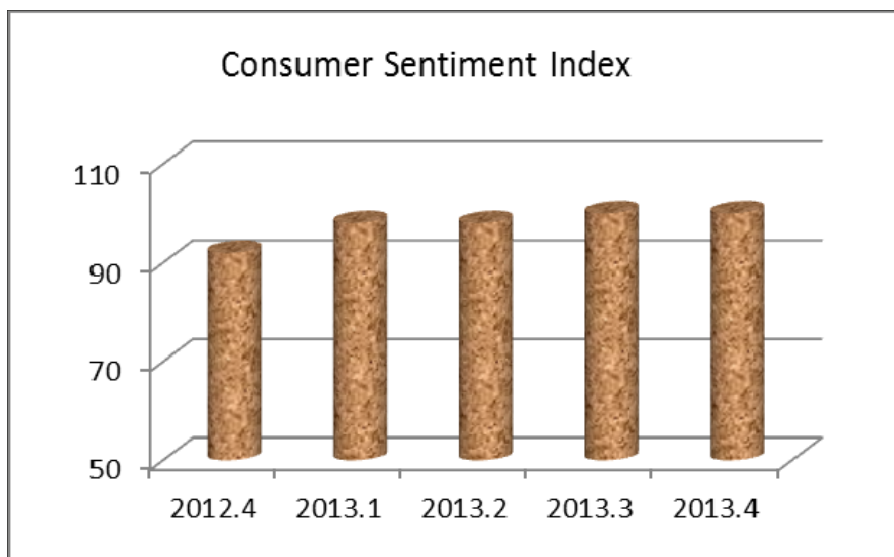


Table 1: Index Values			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	100	100	92
Sub-index: Current Conditions	97	99	97
Sub-index: Future Expectations	102	100	87

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)	28 %	49 %	23 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	21 %	57 %	22 %
How your acquaintances in Kern County are doing financially compared to one year ago.	18 %	52%	30 %

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	38%	39 %	23 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	27 %	55 %	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 %	47 %	35 %

Kern Business (Continued from page 3)

Economic Outlook:

When asked about Kern County’s economy, 41 percent of interviewees perceived no change this quarter. Nevertheless, 47 percent felt conditions improved and 12 percent said conditions worsened.

Likewise, 34 percent felt that economic conditions would remain unchanged next quarter. However, 55 percent anticipated the economy would get better and 11 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:

- Greater consumer spending during the holiday season
- Improved real estate market
- Commercial and residential land development

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

- Increased health-care cost for small and medium size businesses
- Projected increase in the minimum wage
- Restrictive state regulations

TRACKING KERN'S ECONOMY¹

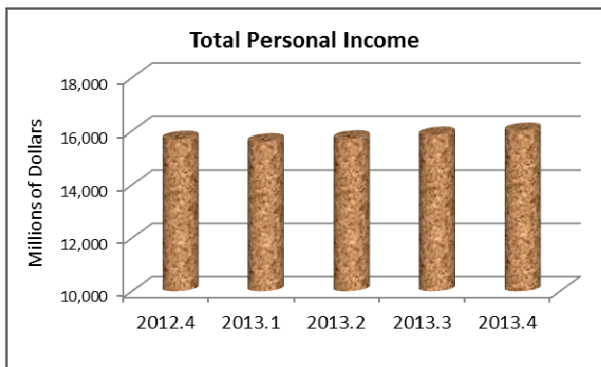
2013 FOURTH QUARTER

ABBAS P. GRAMMY

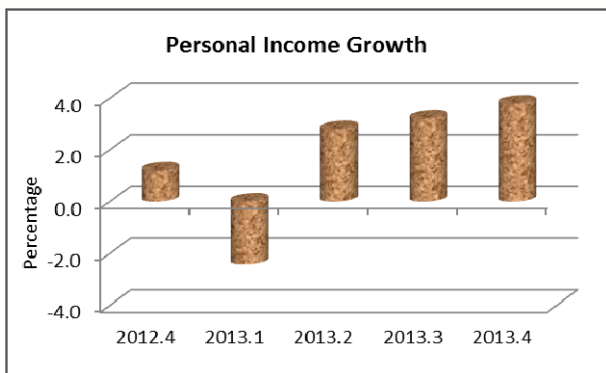
PROFESSOR OF ECONOMICS, CSUB

Economy

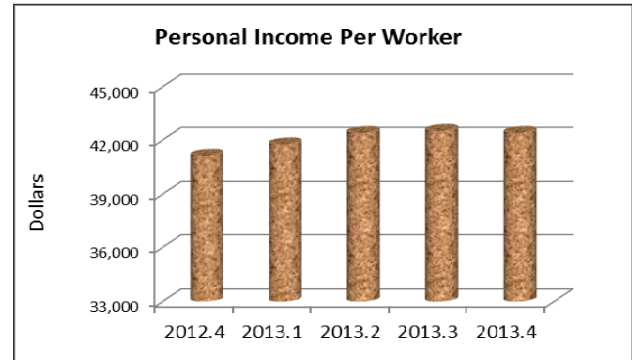
Personal Income - Kern County's total personal income (in constant 1996 dollars) increased \$150 million from \$15.85 billion in the third quarter to \$16 billion in the fourth quarter of 2013. The main factors contributing to this expansion were increased employment, reduced unemployment, more consumer spending, and greater business activity. Relative to four quarters ago, Kern County's economy generated \$300 million more income.



Growth of Personal Income - The gain of \$150 million of personal income translated into an annualized growth rate of 3.8 percent in the fourth quarter of 2013. Kern's economy expanded 3.2 percent in the previous quarter and 1.2 percent four quarters ago.



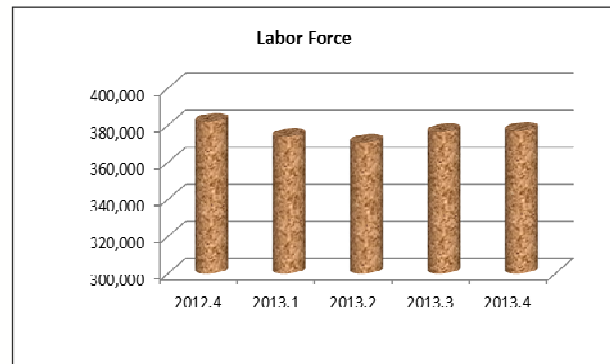
Personal Income Per Worker - The rise in total personal income was offset by a greater increase in the labor force. As a result, personal income per worker lost \$120 to reach \$42,400 in the fourth of 2013. Likewise, personal income per worker was up \$1,300 this quarter relative to four quarters ago.



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.

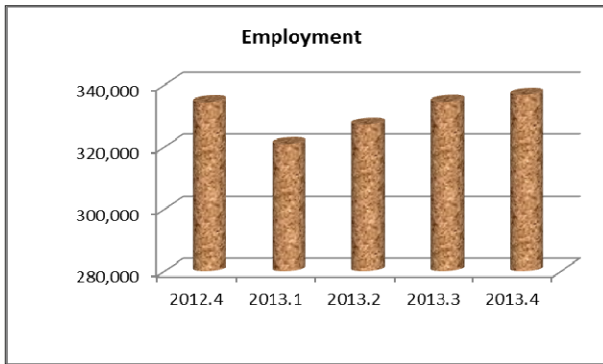
Labor Force - The civilian labor force increased by 800 members from 376,300 in the third quarter to 377,100 in the fourth quarter of 2013. However, 4,810 fewer workers were available for work this quarter relative to the fourth quarter of 2012.



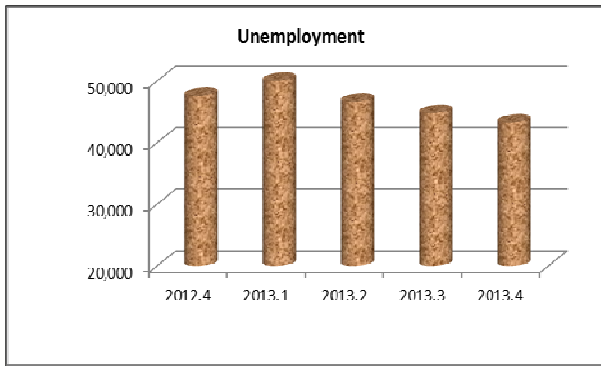
Employment - In the fourth quarter of 2013, Kern County's economy hired 2,300 more workers as total employment increased from 334,450 to 336,750. Likewise, the county employed 2,240 more workers this quarter relative to the fourth quarter of last year.

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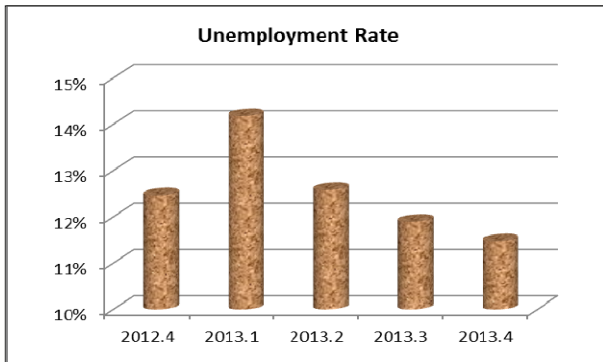
¹Source - Online databases: labormarketinfo.edd.ca.gov, bakersfieldgasprices.com, dqnews.com, economagic.com, bea.gov, bls.com, gpoaccess.gov, dairy.nu, msn.com, census.gov, kerndata.com, and bry.com



Unemployment - The number of jobless workers dropped by 1,500 as total unemployment declined from 44,760 in the third quarter to 43,260 in the fourth quarter of 2013. Likewise, 4,340 fewer workers were unemployed this quarter than four quarters ago.



Unemployment Rate - In the meantime, the rate of unemployment dropped from 11.9 percent in the third quarter to 11.5 percent in the fourth quarter of 2013. Kern County's unemployment rate was 12.5 percent four quarters ago.

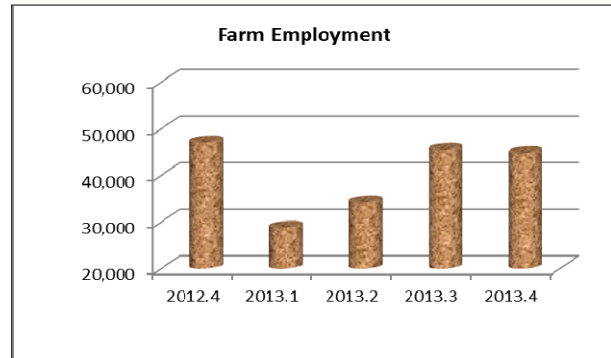


The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate varied between 5.9 percent in Ridgecrest and 28.3 percent in Arvin. In Bakersfield, the rate of unemployment was 7.2 percent.

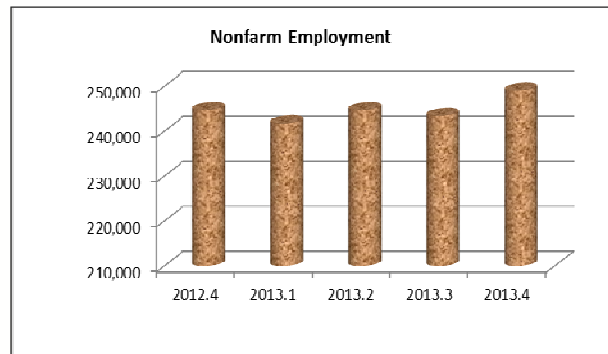
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Ridgecrest	5.9	Oildale	11.0
Inyokern	6.3	Mojave	11.7
Tehachapi	6.5	Lake Isabella	12.4
Bakersfield	7.2	Shafter	18.9
California City	8.2	Lamont	19.0
Rosamond	8.6	Wasco	19.6
Frazier Park	9.1	McFarland	22.2
Wofford Heights	10.0	Delano	27.3
Taft	10.2	Arvin	28.3

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

Farm Employment - In the fourth quarter of 2013, Kern County hired 700 fewer farm workers. Farm employment decreased from 45,450 to 44,750. Likewise, the farming industry hired 2,260 fewer workers this quarter than four quarters ago.

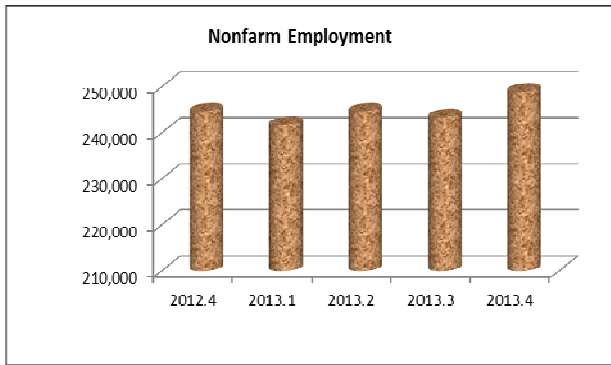


Nonfarm Employment - Local nonfarm industries employed 5,630 more workers. The number of nonfarm workers increased from 243,340 in the third quarter to 248,970 in the fourth quarter of 2013. Nonfarm employment was 4,300 larger than that of four quarters ago.

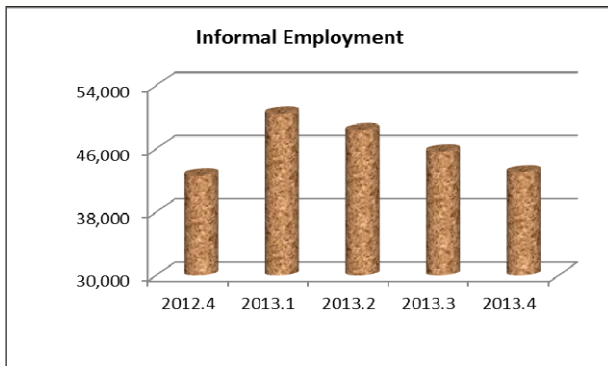


Several nonfarm industries added job: oil and gas extraction and well drilling, construction, wholesale trade, retail trade, transportation and warehousing, leisure and hospitality, professional and business services, educational services, health-care and social assistance, and

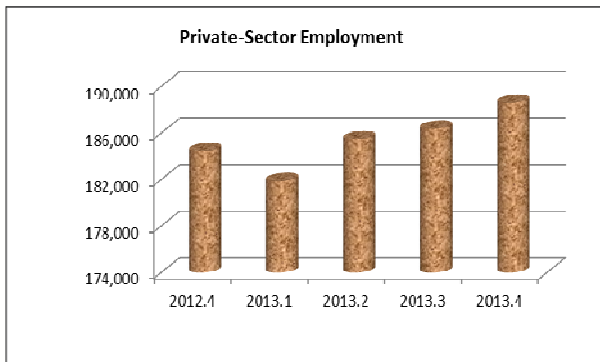
public education. However, jobs were cut in manufacturing and information industries.



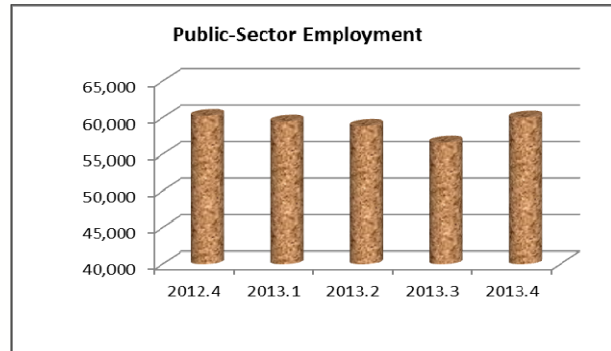
Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those working outside their county of residence. In the fourth quarter of 2013, the number of informal workers decreased by 2,630 from 45,660 to 43,030. However, the informal labor sector hired 400 more workers this quarter relative to the fourth quarter of last year.



Private-Sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the fourth quarter of 2013, private companies hired 2,230 more workers as their employment increased from 186,370 to 188,600. Likewise, the private sector employed 4,160 more workers this quarter than four quarters ago.



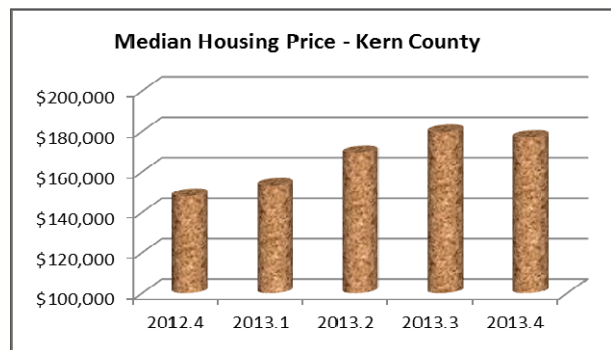
Public-Sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the fourth quarter of 2013, government agencies hired 3,400 more workers as their employment increased from 56,600 to 60,000.



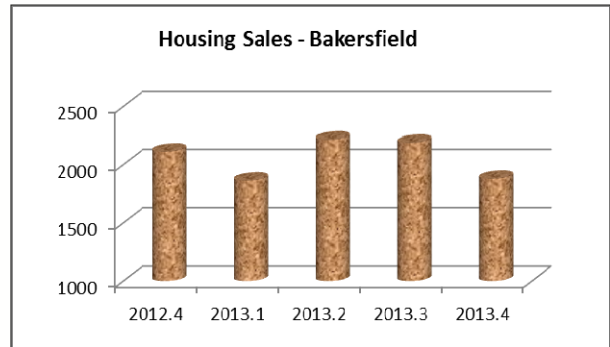
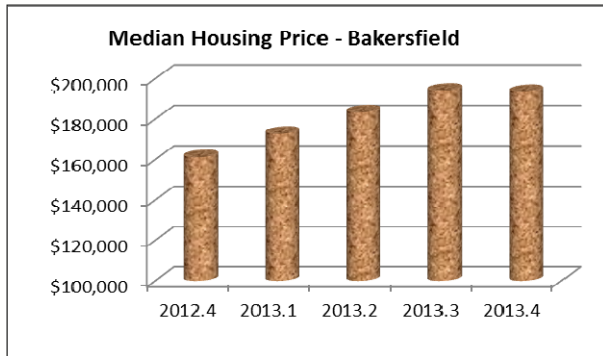
Likewise, the public sector employed 1,970 more workers this quarter relative to four quarters ago.

Housing Market

Housing Price - In the fourth quarter of 2013, Kern County's housing market recovery came to an unexpected halt. The median sales price for all residential units depreciated \$2,700 (or 1.5 percent) from \$179,500 to \$176,800. However, the county's median housing price was \$28,900 (or 19.5 percent) higher than that of four quarters ago.



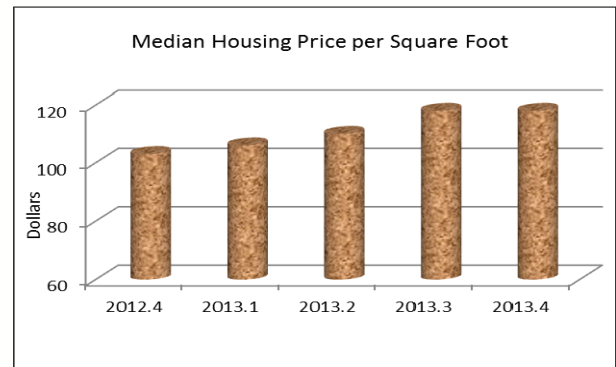
In Bakersfield, the median housing price depreciated \$600 (or 0.3 percent) from \$194,000 in the third quarter to \$193,400 in the fourth quarter of 2013. Nevertheless, the city's median housing price was \$32,300 (or 20.0 percent) higher than that of four quarters ago.



Housing price changes varied across the county. Among selected cities, the median sales price depreciated in Bakersfield, Ridgecrest, Rosamond, and Taft. In contrast, Delano and Tehachapi recorded higher average sale prices.

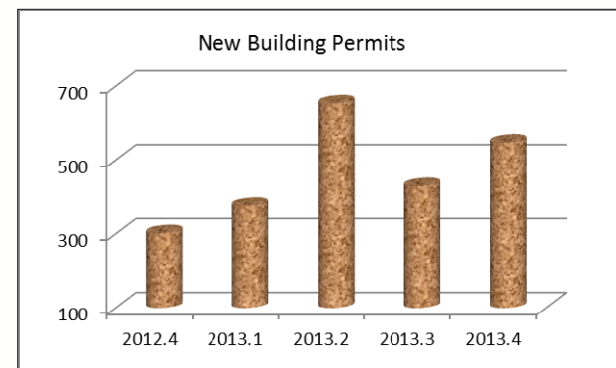
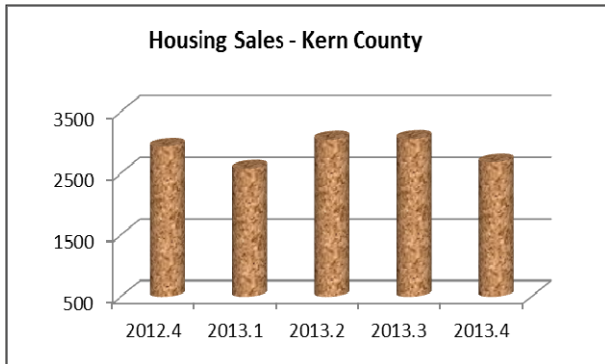
Housing Price per Square Foot - The median sales price per square foot of housing area remained constant at \$118 in the fourth quarter of 2013. The median housing price per square foot has gone up \$15 since the fourth quarter of last year.

Location	Median Price 2013.4	Median Price 2013.3	Price Change 2013.3 to 2013.4	Price Change 2013.3-2013.4
Kern County	\$176,800	\$179,500	-\$2,700	-1.5%
Bakersfield	\$193,400	\$194,000	-\$600	-0.3%
Delano	\$138,100	\$118,500	\$19,600	16.5%
Ridgecrest	\$134,300	\$143,500	-\$9,200	-6.4%
Rosamond	\$155,800	\$179,250	-\$23,450	-13.1%
Taft	\$80,200	\$89,500	-\$9,300	-10.4%
Tehachapi	\$191,000	\$183,900	\$7,100	3.9%



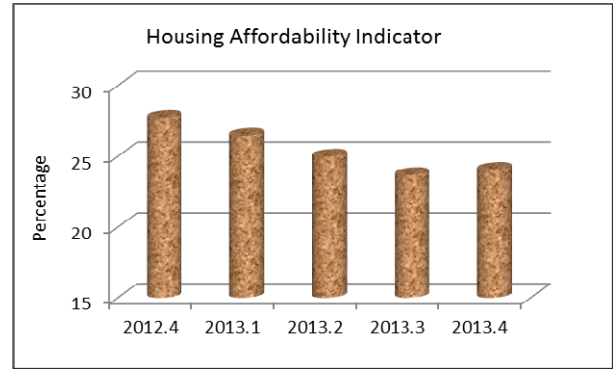
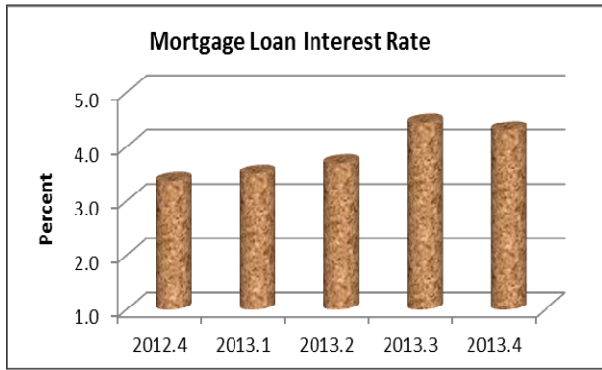
Housing Sales -- In Kern County, 381 fewer homes were sold as total sales decreased from 3,060 in the third quarter to 2,679 in the fourth quarter of 2013. Likewise, 256 fewer units were sold this quarter relative to the fourth quarter of last year.

New Building Permits - In the fourth quarter of 2013, Kern County issued 547 permits construction of new privately-owned dwelling units. The county issued 430 new building permits last quarter and 302 four quarters ago.

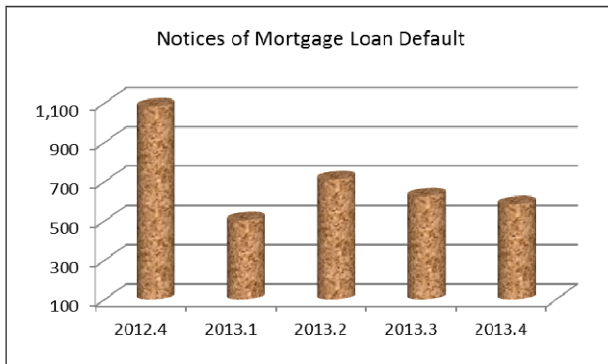


In Bakersfield, 310 fewer homes were sold as sales of residential units decreased from 2,186 in the third quarter to 1,876 in the fourth quarter of 2013. Similarly, sales were down by 235 units this quarter relative to the fourth quarter of last year.

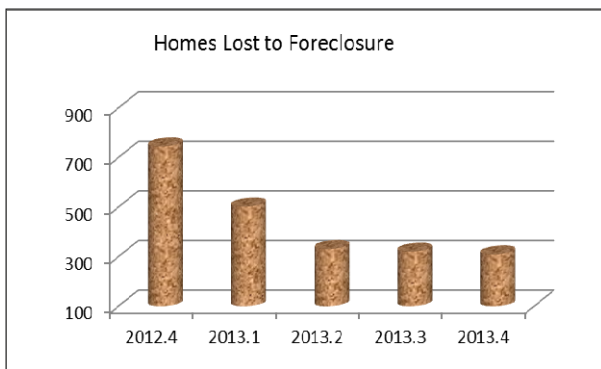
Mortgage Interest Rate - In the fourth quarter of 2013, the interest rate on thirty-year conventional mortgage loans dropped from 4.44 to 4.30 percent. Four quarters ago, the mortgage loan interest rate was 3.36 percent.



Housing Foreclosure Activity - In the fourth quarter of 2013, the county’s foreclosure activity declined from 626 to 584. As a result, 42 fewer homeowners received notices of loan default from their mortgage bankers. Likewise, the number of default notices has gone down by 498 since the fourth quarter of last year.



The number of homes lost to foreclosure decreased from 320 in the third quarter to 309 in the fourth quarter of 2013. As a result, 11 fewer homes were lost to foreclosure. Likewise, 435 fewer homes were lost to foreclosure this quarter relative to four quarters ago.



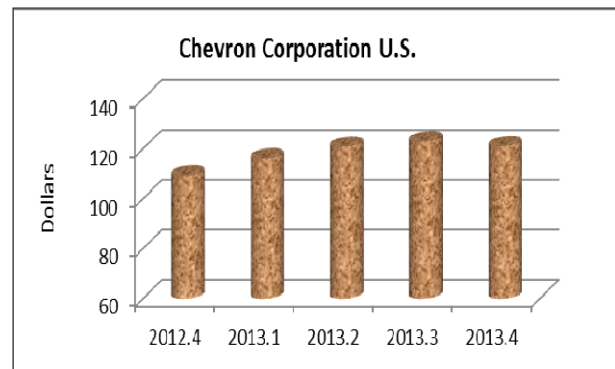
Housing Affordability - Median housing prices divided by median household income is a measure of housing affordability. With modest depreciation of housing prices and stagnant household income, the affordability indicator grew slightly to 24.0 percent in the fourth quarter from 23.7 percent in the third quarter of 2013. The housing affordability indicator was 27.7 percent four quarters ago.

Stock Market

In the third quarter of 2013, the composite price index (2012.4 = 100) of the five publically traded companies doing business in Kern County increased 4.0 points from 118.2 to 122.2. The index was 22.2 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.



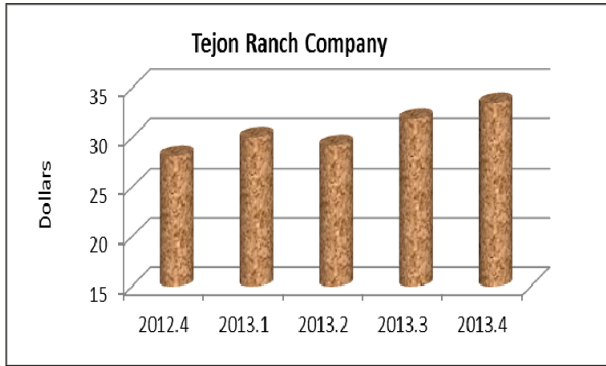
Chevron Corporation US - CVX lost \$1.94 (or 1.6 percent) per share as its price decreased from \$122.86 in the third quarter to \$120.92 in the fourth quarter of 2013. Relative to the fourth quarter of 2012, CVX has made \$11.78 (or 10.8 percent).



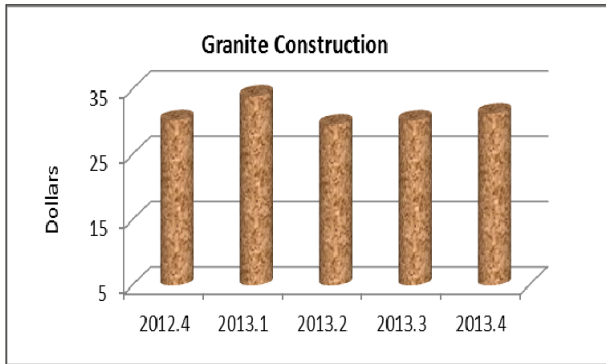
Tejon Ranch Company - TRC made \$1.63 (or 5.1 percent) per share as its stock price climbed from \$31.88 in

(Continued on page 11)

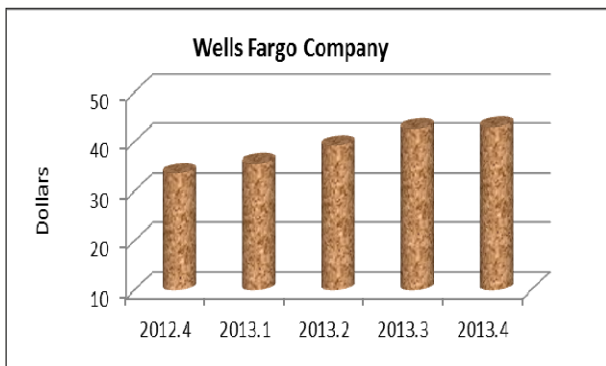
the third quarter to \$33.55 in the fourth quarter of 2013. Likewise, TRC was up \$5.38 (or 19.1 percent) relative to the fourth quarter of 2012.



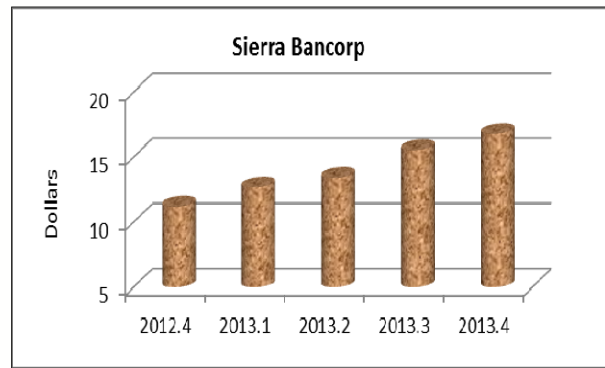
Granite Construction - GVA gained \$1.08 (or 3.6 percent) per share in the fourth quarter of 2013 as its stock price increased from \$30.25 to \$31.33. Similarly, GVA has gone up \$1.04 (or 3.4 percent) since the fourth quarter of 2012



Wells Fargo Company - WFC made 36¢ (or 0.8 percent) per share as its stock price ascended from \$42.69 in the third quarter to \$43.05 in the fourth quarter of 2013. Relative to one year ago, WFC was up \$9.32 (or 27.6 percent).

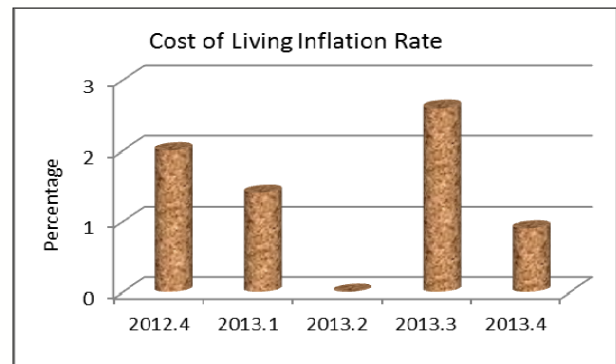


Sierra Bancorp - BSRR gained \$1.25 (or 8.0 percent) per share as its price inclined from \$15.55 in the third quarter to \$16.80 in the fourth quarter of 2013. Likewise, BSRR has gone up \$5.60 (or 50.0 percent) since the fourth quarter of 2012.

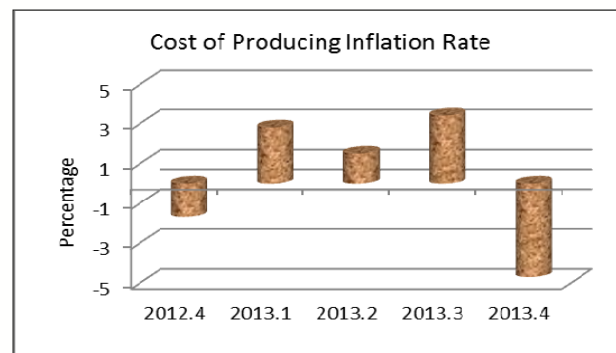


Inflation

Cost of Living - The Consumer Price Index for all urban areas (1982-84 = 100) inclined from 233.6 in the third quarter to 234.1 in the fourth quarter of 2013. As a result, inflation for the cost of living accelerated at an annual rate of 0.9 percent. The cost of living inflation rate was 2.6 percent last quarter and 2.0 percent four quarters ago



Cost of Producing - The Producer Price Index for finished consumer goods (1982 = 100) decreased from 211.8 in the third quarter to 209.3 in the fourth quarter of 2013. As a result, the cost of production dropped at an annual rate of 4.7 percent. The cost of producing inflation rate was 3.4 percent last quarter and -1.7 percent four quarters ago.



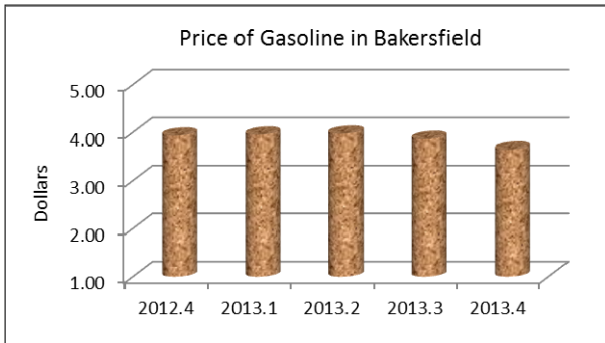
Cost of Employment - The Employment Cost Index (December 2005 = 100) for all civilian workers increased from 119.5 in the third quarter to 120.1 in the

fourth quarter of 2013. As a result, the cost of employment grew at an annualized rate of 2.0 percent. The cost of employment inflation rate was 1.7 percent last quarter and 0.7 percent four quarters ago.

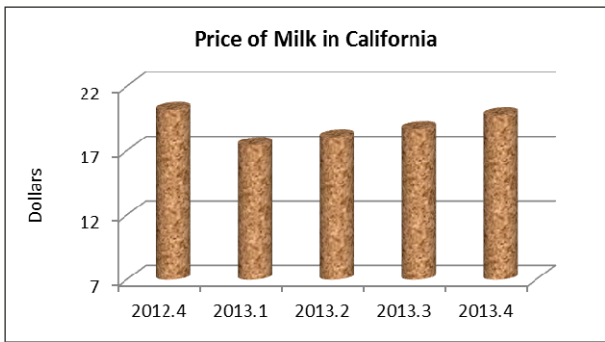


Commodity Prices

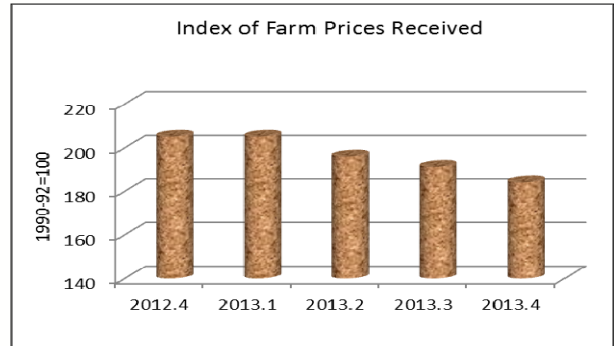
Price of Gasoline - In Bakersfield, the average retail price of regular gasoline decreased 22¢ per gallon from \$3.86 in the third quarter to \$3.64 in the fourth quarter of 2013. Compared with the fourth quarter of last year, the average gasoline price was down 29¢.



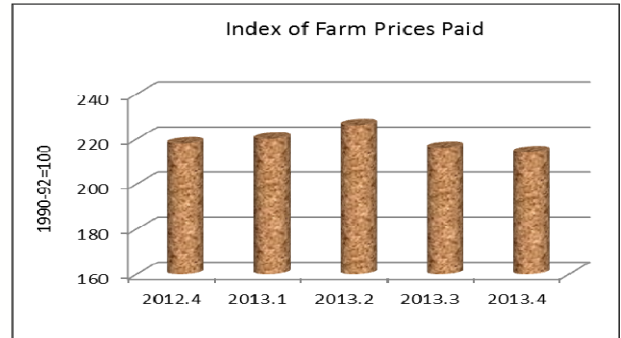
Price of Milk - The unit price of California’s Class III milk increased \$1.11 (or 5.9 percent) from \$18.66 in the third quarter to \$19.77 in the fourth quarter of 2013. However, milk prices have gone down 40¢ (or 2.0 percent) since the fourth quarter of 2012.



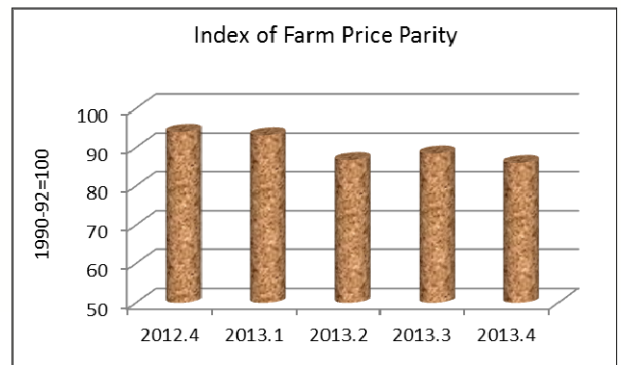
Farm Prices - In the fourth quarter of 2013, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) dropped 7 points from 191 to 184. Likewise, the index was 21 points lower than that of four quarters ago.



Meanwhile, the national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents dropped 2 points to reach 214. The index value was 4 points lower 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 fourth quarter of 2013, the gap between prices paid and prices received widened as the Index of Farm Price Parity fell from 88 to 86 percent. Four quarters ago, the price ratio was 94 percent.



Capitalism, Freedom, and Milton Friedman¹

“Governments never learn. Only people learn.”



Few economists have had as big an impact on the U.S. economy like Milton Friedman (1912-2006) has. His thoughts on the role of government and the effectiveness of monetary policy have influenced presidents, government officials, world leaders and academics alike.

Standing at only about 5 feet even, his roar was louder than he was tall. Any YouTube® video search on the man will show how strongly he believed in his ideas. Watching a debate with students or his academic peers shows that the man never lost an argument, not because he may have been right, but because he hardly ever let anyone else to talk. He was the Bill O'Reilly of economics. Recognized for his arguments as much as his economic thoughts, President George W. Bush even quipped that Friedman's wife, Rose, is the only person to have ever won an argument with him.

Friedman wasn't just a man behind a desk analyzing numbers and presenting them with fancy charts and graphs. His arguments would lead to some of the most controversial and thought provoking words for its time. Some of those arguments have become common practice today. Friedman argued that paying factory workers overseas less than a dollar a day (at that time) was good for the worker. They were better off than if they did not have that job or if they were toiling in the fields where they would be making much less, the consumer of the end product is also better off because she pays less for it than if it were made by a higher wage worker.

If that has not provoked any thought in you yet than watch out for this one: illegal immigration is good for the nation, as long as it remains illegal. Once legalized, then immigration is bad. As long as it is illegal, immigrants will migrate for the jobs, once legalized they will migrate for the benefits of welfare, social security, higher wage jobs and all the other benefits that are reserved for the resident taxpayers. Let immigration remain illegal and they will not qualify for benefits, they will take jobs no one else is willing to take, and they will work harder for cheaper. The immigrant, the business owner, the economy, and the nation benefit from illegal immigration. Once legalized, only the immigrant benefits.

There many more of Milton's arguments which are just as, if not more, controversial and thought provoking. Most of his work remains debated and discussed in college classrooms and government chambers all across the globe. Of this work, two of his most important and influential contributions to economics and policy have been his thoughts on the role of government and the effectiveness of monetary policy.

The role of government is to protect the freedom of the people. The people are free to choose what they do as long as it does not hinder freedom of others. Government should have very few regulations as they do not benefit everyone, but benefit certain people. Government also does not need to play a role in welfare or education. Government run welfare is flawed and education can have a higher quality and be more efficient if it were privately run. Both welfare and education and all government programs run on people's money, taxes. When government agencies and administrators use other people's money on other people they do not economize or seek the highest value as they would with their own money. This causes a loss in quality and the people are worse off. When programs are privatized, the businesses and companies are using their own money and seek the highest value in order to retain business and protect their reputation. This will increase the quality of the service and the people, the business, and the nation are better off than if the government tried to do it on its own.

On the effectiveness of monetary policy, Friedman argued that it was actually not very effective. Monetary policy allows too much government tinkering which actually creates booms and busts that it aims to prevent. When the government tinkers with the market it assigns monetary policy a larger role than it can perform and puts it in danger or preventing it from providing the contributions that it is capable of making. The role of monetary policy should not be to *control* interest rates, inflation, and unemployment but, rather to *influence* them. By creating policy that guides little tinkering is needed and you avoid damage caused by policy, like controlling measures does. As Friedman said in his own words, “you can lead a horse to water but you can't make him drink.”

Sources:

[Milton Friedman's Free to Choose videos on YouTube®](#)

<http://willwilkinson.net/flybottle/2008/06/11/milton-friedmans-argument-for-illegal-immigration/>

Capitalism and Freedom by Milton Friedman

http://stevereads.com/papers_to_read/friedman_the_role_of_monetary_policy.pdf

¹ This article is written by Nathan Pérez and edited by Abbas Grammy.

Econ Brief!

Kern County Recovered from Recession

David Lyman
Manager, Convention and Visitor Bureau

While the U.S. economy had recovered from the Great Recession three years ago, about half of the nation's 3,069 county economies are still short of their pre-recession economic output, reflecting an uneven economic recovery, according to a new report published by the National Association of Counties.

The report examined four economic indicators: GDP, total number of jobs, unemployment rates and home prices. According to this examination, Kern County's real GDP has recovered from the Great Recession. As shown in the enclosed map Kern is the largest county in the Central Valley to show recovery.

Source: National Association of Counties

