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School of Business and Public Administration

Kern Economic Journal

2014 First Quarter

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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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INSIDE THIS ISSUE:

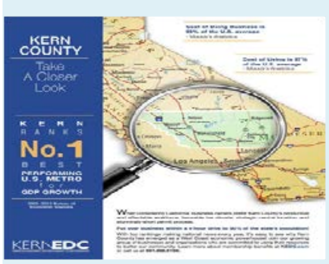
Econ Brief!

Economic Powerhouse

Wayne Kress, SIOR
Director/Principal
Pacific Commercial Realty Advisors

I attended a meeting recently to hear about the Milken Institute's pending study of Kern County's economic performance and potential. They've been hired to design a roadmap of sorts for how we can blend all the plusses of our economy (abundant natural resources, adaptable workforce, and central location with our social/cultural climate and amidst our existing regulatory environment to further improve our already impressive economic performance. Think of extending our existing industries into ten new directions. That's kind of what we're working to do.

The Milken Institute's mission is to improve the standard of living of all peoples through economic development, and they've built an enviable list of accomplishments in helping local governments and organizations do just that. They also produce an annual survey of "top performing cities" across America, and Bakersfield was tops in California in 2011, second in 2012 (behind the Silicon Valley), and third in 2013 (behind San Francisco and the Silicon Valley). So we're already doing pretty well; I look forward to learning how we can do better.



Anyway, I learned a few things at that meeting. Did you know we are number 4 in the entire country in "industrial diversity?" I thought we were a two-horse town (though they *are* pretty impressive horses). It turns out we're much more, owing to all the ancillary skills and jobs needed to convert our energy and agriculture into products that can be distributed around the world. It turns out, too, that we've added a whole new category: logistics. We've attracted some 40 companies to our region who have located distri-

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Economy at a Glance!

2014 First Quarter

Abbas P. Grammy

National Economy

The United States - still the largest world's economy of $15.95 trillion – continues a sluggish recovery. The real Gross Domestic Product (GDP) increased at an annual rate of only 0.1 percent in the first quarter of 2014 from 2.6 percent in the fourth quarter of 2013 and 1.1 percent in in the first quarter of 2013. The increase in the GDP in the first quarter primarily reflected a positive contribution from personal consumption expenditures that was partly offset by negative contributions from net exports, private inventory investment, nonresidential fixed investment, residential fixed investment, and state and local government spending.

The Conference Board's Index of Leading Economic Indicators – a measure of future economic activity – improved from 98.4 to 100.0 indicating continued economic growth over the next six to nine months. Likewise, the University of Michigan's Consumer Sentiment Index increased from 77 to 81. The rate of unemployment declined from 7.0 to 6.7 percent. In the meantime, the cost of living increased at an annual rate of 1.9 percent; the cost of producing slipped 6.3 percent; and the cost of employment rose 1.2 percent.

State Economy

In California, the unemployment rate dropped to 8.1 from 8.4 percent. Among counties, San Francisco (5.3 percent), Orange (5.8 percent), Santa Clara (6.1 percent), San Luis Obispo (6.2 percent), San Diego (7.0 percent), and Sacramento (8.2 percent) had unemployment rates below the state average. Whereas, Los Angeles (8.8 percent), Riverside (9.5 percent), and Fresno (13.7 percent) had unemployment rates above the state average.

The state's civilian labor force added 56,600 members, which consisted of 118,400 more workers gaining jobs and 61,900 fewer workers being unemployed. Farming enterprises employed 10,200 more workers and nonfarm industries hired 44,200 extra workers. A wide range of industries added jobs: mining, construction, wholesale trade, transportation and warehousing, real estate, rental and leasing, professional and business services, educational services, health-care and social assistance, leisure and hospitality, and state government. Jobs were lost in manufacturing, retail trade, information, finance and insurance, and federal and local governments.

Local Economy

In Kern County, household perceptions became pessimistic about employment and financial conditions of their families and relatives as the *Bakersfield Consumer Sentiment Index* dropped to 95 from 100. Meanwhile, local businesses became slightly more optimistic about local employment and financial conditions as the *Kern County Business Outlook Index* leaped to 120 from 119.

In the meantime, the county's economy contracted at an annual rate of 1.5 percent. Kern's economy generated $15.94 billion in real personal income, $60 million less than the previous quarter. However, personal income per worker gained $100 to reach $42,500.

Labor market conditions deteriorated in the first quarter of 2014. The county hired 9,730 fewer workers. The farming industry hired 15,370 fewer workers and nonfarm enterprises cut jobs to 1,630 workers. Private enterprises employed 1,110 fewer workers and local government agencies cut jobs to 530 laborers. Meanwhile, 7,760 more workers were unemployed, raising the rate of unemployment from 11.5 to 13.6 percent. While below the county average, the rate of unemployment was 6.9 percent in Ridgecrest, 7.6 percent in Tehachapi, 8.4 percent in Bakersfield, and 9.5 percent in California City.

Likewise, housing market conditions deteriorated in the first quarter of 2014. The county's median sales price for all residential units depreciated $1,800 (or 1.0 percent) from $176,800 to $175,000. In Bakersfield, the median housing price remained unchanged at $193,400. In Kern County, 322 fewer homes were sold as total sales decreased from 2,679 to 2,252. In Bakersfield, 275 fewer homes were sold as sales of residential units declined from 1,876 to 1,601. The County of Kern issued 223 fewer permits for construction of new privately-owned dwelling units. Housing became slightly more affordable as the affordability indicator grew to 24.2 from 24.0 percent. The number of notices of loan default homeowners received from their mortgage bankers dropped from 584 to 577 and the number of homes lost to foreclosure decreased from 309 to 304.

In Bakersfield, the average retail price of regular unleaded gasoline increased 6¢ from $3.64 to $3.70 per gallon. The unit price of California's Class III milk increased $2.93 from $19.77 to $22.72. The index of prices farmers received for their outputs jumped 3 points to reach 105, but the index of prices farmers paid for their inputs dropped 12 point to arrive at 107. As a result, the gap between output prices farmers received and input prices farmers paid narrowed from 86 to 96 percent. The composite price index of the top five locally traded stocks rose from 112.2 to 115.9. While the average stock price improved for Wells Fargo Company, Granite Construction, and Tejon Ranch Company, it declined for Sierra Bancorp and Chevron Corporation.

Kern County Businesses Slightly More Optimistic

Abbas P. Grammy
Professor of Economics, CSUB

Results of the Business Outlook Survey indicate that Kern County business managers have become slightly more optimistic about local employment and business conditions. In the first quarter (January through March) of 2014, the *Business Outlook Index* increased to 120 from 119. Relative to four quarters ago, the index did not change.

Comparing with the previous quarter survey, we can see signs of improved optimism. While the percentage of positive responses decreased from 34 to 31, the percentage of neutral responses rose from 52 to 58, and the percentage of negative responses declined from 14 to 11.

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* dropped to 111 from 116, whereas the *Future Conditions Index* jumped to 129 from 122. These results indicate while business managers express less confidence about current conditions, they are more optimistic about conditions of the next quarter.

Employment Outlook:
Fifty-three 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 21 percent reported reduced employment.

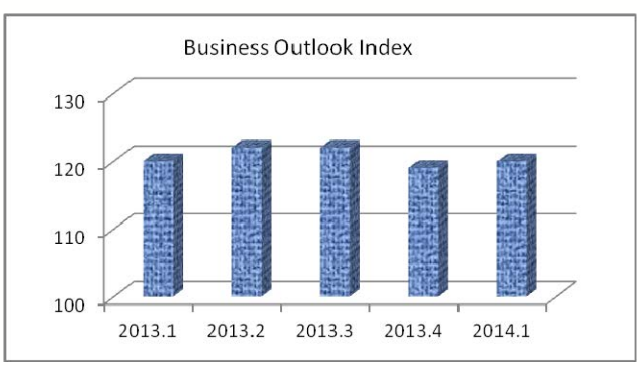
Likewise, 68 percent perceived that the number of jobs would stay constant next quarter, whereas 24 percent expected their companies to hire more workers. The remaining 8 percent anticipated a smaller workforce.

Financial Outlook:
Fifty-seven percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter, whereas 31 percent indicated increased sales and profits and 12 percent stated reduced sales and profits.

Similarly, 42 percent expected financial conditions of their companies would remain constant next quarter. However, 54 percent anticipated increased sales and profits and 4 percent predicted reduced sales and profits.

Industry Outlook:
Fifty-nine percent of survey respondents perceived that employment and general business conditions of their industries remained the same as the previous quarter, while 30 percent felt these conditions improved and 11 percent indicated crumbling business conditions.

Sixty-three percent anticipated that the employment and general business conditions of their industries would stay unchanged next quarter. Yet, 35 percent expected progress and 2 percent felt otherwise.



Kern County Business Outlook			
	Current Quarter	Previous Quarter	Four Quarters Ago
Business Outlook Index	**120**	**119**	**120**
Current Conditions Index	111	116	115
Future Conditions Index	129	122	126

(Continued on page 5)

Bakersfield Consumer Sentiment Dips in First Quarter

Mark Evans
Professor and Chair of Economics, CSUB

The Bakersfield Consumer Sentiment Index dipped to 95 in the first quarter of 2014 after being stuck at 100 throughout the second half of 2013. Meanwhile, the Thomson Reuters/University of Michigan index measuring consumer sentiment at the national level increased from 77 to 81.

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 distribution of readings since CSUB's Economics Department began compiling the local index in 1999. Both indexes are mired in the bottom half of these readings. The local index has registered greater optimism 60 percent of the time, while the national index has exceeded its current level 70 percent of the time.

The Bakersfield index is disaggregated into sub-indexes measuring current conditions and future expectations. The current conditions sub-index barely changed. The first quarter decline in sentiment was caused primarily by diminished expectations

The sub-index measuring the current situation of household registered a minor decline from 97 in the previous quarter to 96. The percent of respondents spending "more than usual on discretionary items such as dining out, weekend outings, and entertainment" decreased from 28 to 21 percent. This was offset by a decrease from 30 to 20 percent in the percent of respondents who thought their local acquaintances were worse off. There was essentially no change in self-reported financial well-being compared to the previous quarter.

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. Eight percent of households reported purchasing a "big ticket" item compared to six percent in the final quarter of 2013. While this is a modest improvement, it is below the percentage of big ticket purchasers throughout the first three quarters of 2013. Two percent reported making an appliance purchase, while one percent of those surveyed reported purchasing each of the following: furniture, TV and electronics, computing equipment, automobile, and home improvements.

The sub-index measuring expectations for the coming year decreased from 102 to 93. Households expecting their financial situation to improve over the next year decreased from 38 to 31 percent of the sample, while those expecting it to worsen increased from 23 to 29 percent of respondents. There was a sharp drop in impressions regarding expectations of local acquaintances. Only 13 percent reported that acquaintances appeared to be optimistic their financial situation would improve over the coming year compared to 27 percent in the previous quarter. While the percent reporting that this was a safe time to use savings or incur debt increased from 18 to 22 percent, this was not enough of an improvement to offset the above-mentioned increases in negative responses.

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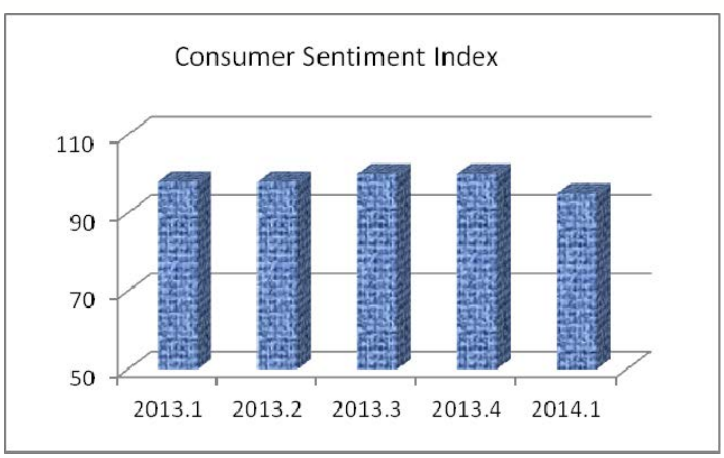


Consumer Sentiment (Continued from page 4)

Table 1: Index Values			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	**95**	**100**	**98**
Sub-index: Current Conditions	96	97	104
Sub-index: Future Expectations	93	102	91

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)	21 %	52 %	27 %
	Better off	**Same**	**Worse off**
How your family is doing financially compared to one year ago.	22 %	54 %	24 %
How your acquaintances in Kern County are doing financially compared to one year ago.	17 %	63%	20 %

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	31%	40 %	29 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	13 %	60 %	27 %
	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?	22 %	46 %	32 %

Kern Business (Continued from page 3)

Economic Outlook:
When asked about Kern County's economy, 63 percent of interviewees perceived no change this quarter. Nevertheless, 19 percent felt conditions improved and 18 percent said conditions worsened.

Likewise, 59 percent felt that economic conditions would remain unchanged next quarter. However, 29 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:

- Improving local economy and real estate market
- High prices for crude oil
- Opportunity to expand business

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

- Severe drought hearting agriculture and dairy industries
- Sluggish national economy
- Affordable Healthcare Act (The Obama Care)

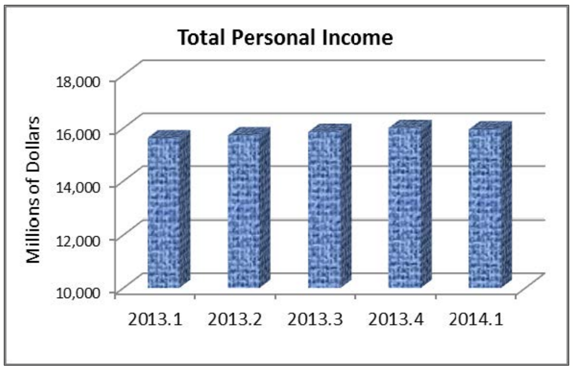
Tracking Kern's Economy[1]

2014 First Quarter

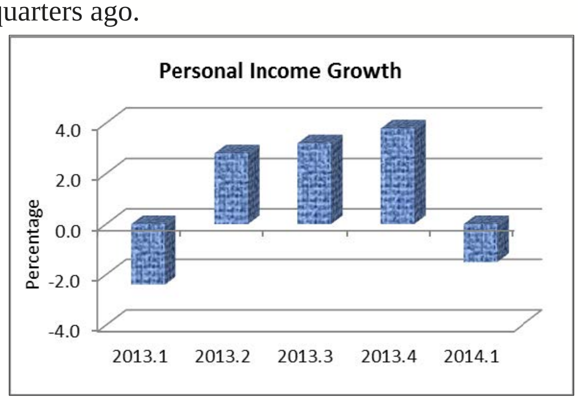
Abbas P. Grammy
Professor of Economics, CSUB

Economy

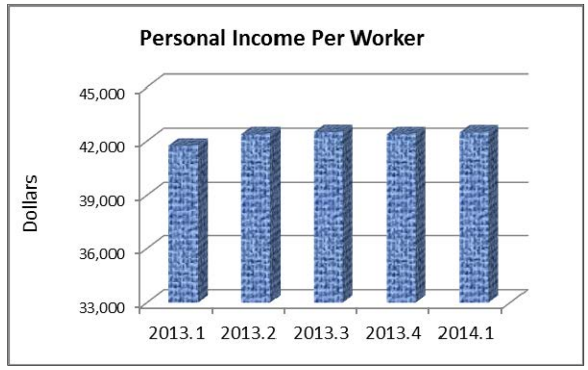
Personal Income - Kern County's total personal income (in constant 1996 dollars) decreased $60 million from $16.00 billion to $15.94 billion. The main factors contributing to this contraction were loss of jobs, increased unemployment, loss of home values, and slower business activity. Nonetheless, Kern County's economy generated $330 million more income this quarter relative to four quarters ago.



Growth of Personal Income - The loss of $60 million of personal income translated into an annual growth rate of -1.5 percent. Kern's economy expanded 3.8 percent in the previous quarter, but contracted 2.4 percent four quarters ago.



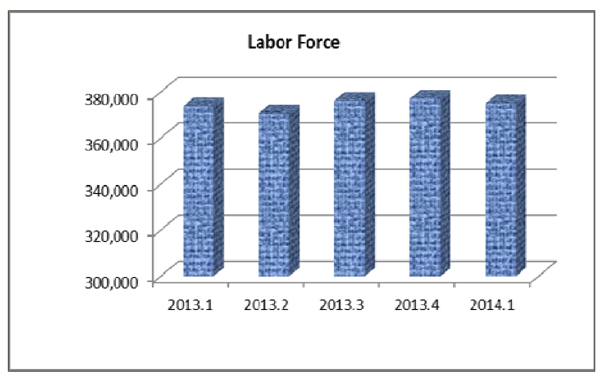
Personal Income Per Worker - The decline in total personal income was partly offset by a reduction in the labor force. As a result, personal income per worker gained $100 to reach $42,500. Likewise, personal income per worker was up $750 this quarter relative to four quarters ago.



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 1,970 members from 377,100 in the fourth quarter of 2013 to 375,130 in the first quarter of 2014. However, 1,280 more workers were available for work this quarter relative to the fourth quarter of 2013.

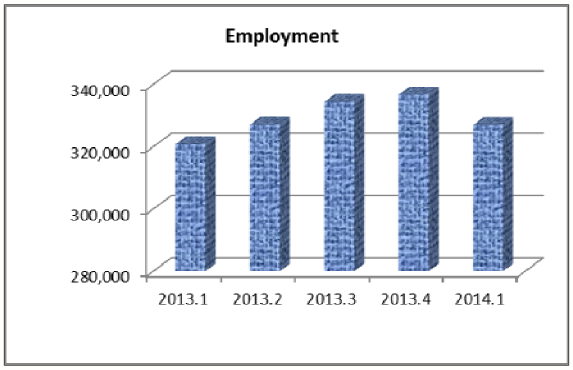


Employment - In the first quarter of 2014, Kern County hired 9,730 fewer workers as total employment declined from 336,750 to 327,020. Compared with four quarters ago, the county employed 6,170 more workers.

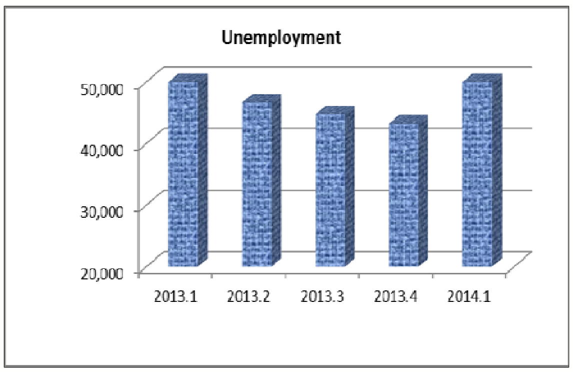
(Continued on page 7)

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

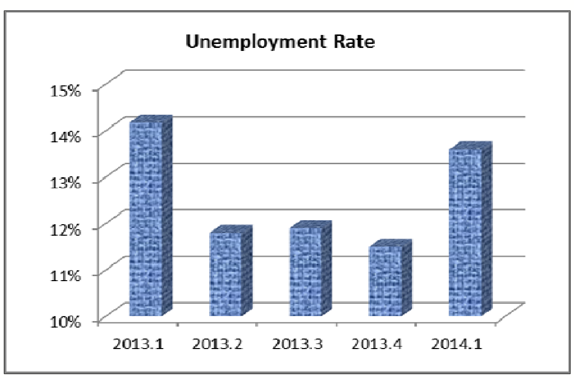
Tracking *(Continued from page 6)*



Unemployment - In the meantime, the number of jobless workers increased by 7,760 as total unemployment climbed from 43,260 to 51,020. Nonetheless, 1,980 fewer workers were unemployed this quarter than four quarters ago.



Unemployment Rate - Having more jobless workers pushed the rate of unemployment up to 13.6 from 11.5 percent. Kern County's unemployment rate was 14.2 percent four quarters ago.



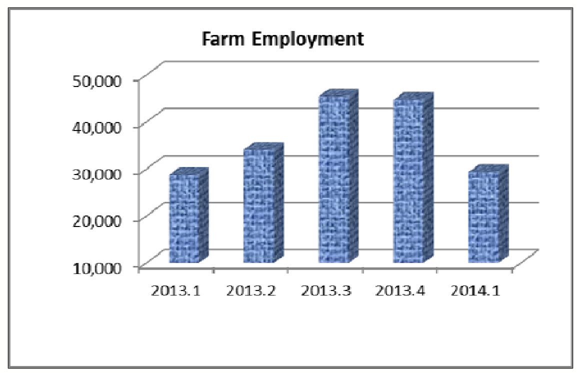
The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate varied between 6.9 percent in Ridgecrest and 31.8 percent in Arvin. In Bakersfield, the rate of unemployment was 8.4 percent.

Unemployment Rate of Cities

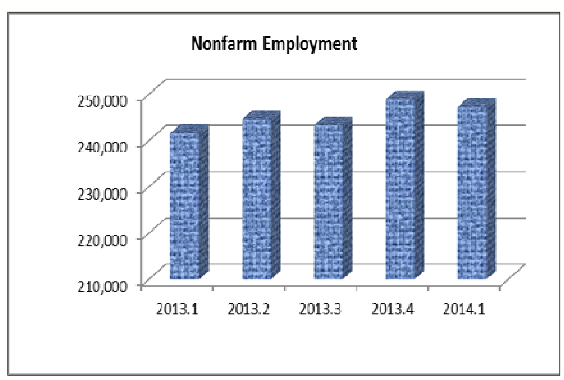
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Ridgecrest	6.9	Oildale	12.3
Inyokern	7.3	Mojave	13.6
Tehachapi	7.6	Lake Isabella	14.4
Bakersfield	8.4	Shafter	21.6
California City	9.5	Lamont	21.7
Rosamond	10.0	Wasco	22.4
Frazier Park	10.1	McFarland	25.2
Wofford Heights	10.6	Delano	30.7
Taft	11.9	Arvin	31.8

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

Farm Employment - In the first quarter of 2014, Kern County hired 15,370 fewer farm workers. Farm employment decreased from 44,750 to 29,380. However, the farming industry hired 630 more workers this quarter than four quarters ago.



Nonfarm Employment - Local nonfarm industries employed 1,630 fewer workers this quarter. The number of nonfarm workers decreased from 248,970 to 247,340. Relative to the first quarter of 2013, nonfarm industries hired 5,670 more workers.



Among nonfarm industries only construction added jobs. However, jobs were cut in oil and gas extraction and well drilling, manufacturing, wholesale trade, retail trade, transportation and warehousing, finance and insurance, leisure and hospitality, professional and business

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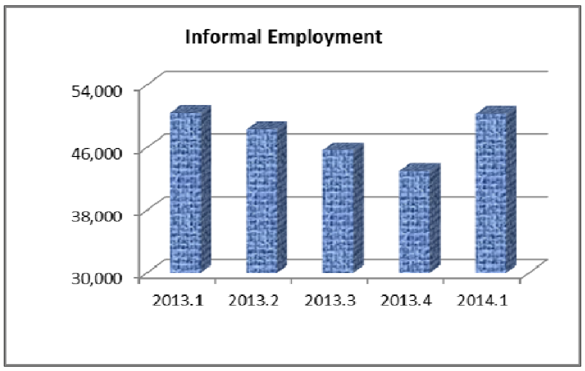
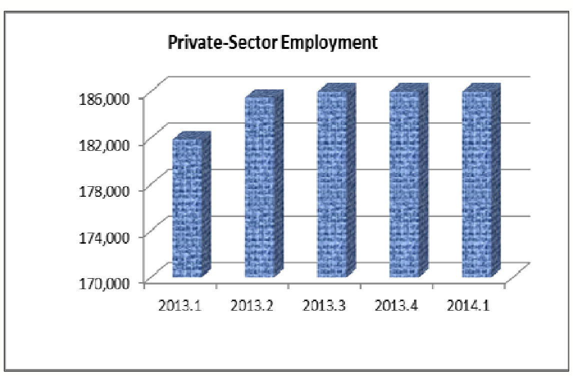
services, educational services, health-care and social assistance, and local, state, and federal government agencies.

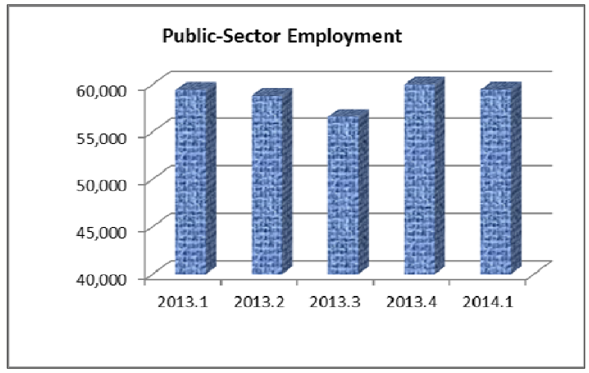
Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those working outside their county of residence. In the first quarter of 2014, the number of informal workers increased by 7,270 from 43,030 to 50,300. However, the informal labor sector hired 130 fewer workers this quarter relative to the first quarter of last year.



Private-Sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the first quarter of 2014, private companies hired 1,100 fewer workers as their employment decreased from 188,600 to 187,500. On the contrary, the private sector employed 5,630 more workers this quarter than four quarters ago.

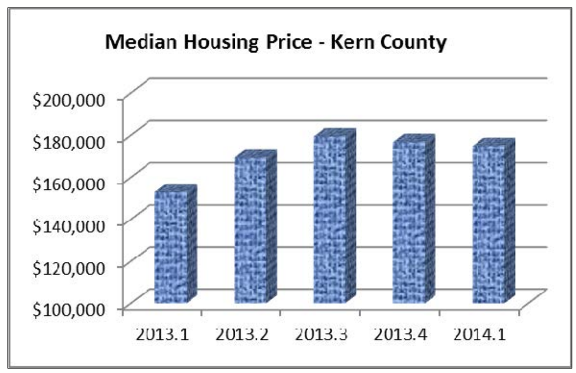


Public-Sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the first quarter of 2014, government agencies hired 530 fewer workers as their employment decreased from 60,000 to 59,470. However, the public sector employed 40 more workers this quarter than to four quarters ago.

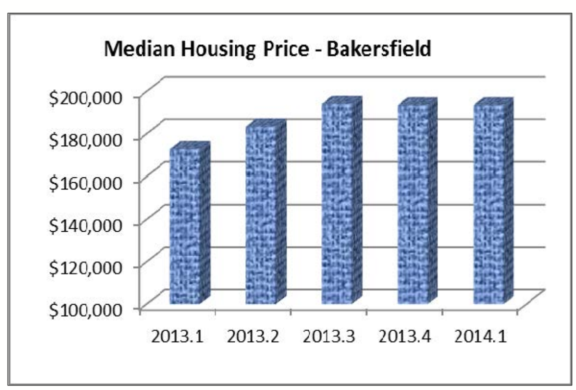


Housing Market

Housing Price - In the first quarter of 2014, Kern County's housing market remained sluggish. The median sales price for all residential units depreciated $1,800 (or 1.0 percent) from $176,800 to $175,000. However, the good news is that the county's median housing price was $22,000 (or 14.4 percent) higher than that of the first quarter of 2013.



In Bakersfield, the median housing price was unchanged at $193,400. Nevertheless, the city's median housing price was $20,700 (or 12.0 percent) higher than that of the first quarter of last year.

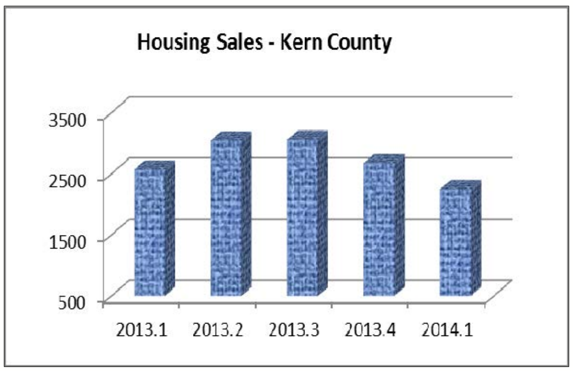


Housing price changes varied across the county. Among selected cities, the median sales price appreciated in Delano, Ridgecrest, and Taft. In contrast, the median housing price depreciated in Rosamond and Tehachapi.

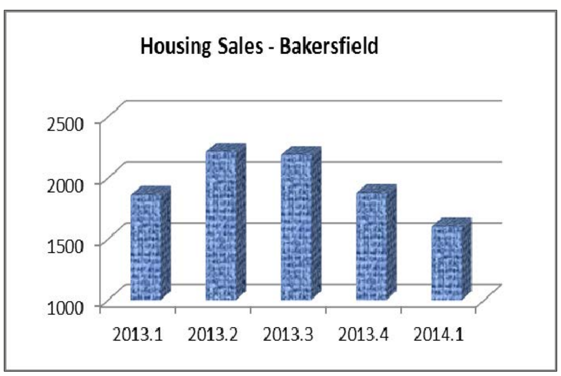
(Continued on page 9)

Location	Median Price 2014.1	Median Price 2013.4	Price Change 2014.1 to 2013.4	Price Change 2014.1-2013.4
Kern County	$175,000	$176,800	-$1,800	-1.0
Bakersfield	$193,400	$193,400	$0	0.0
Delano	$140,300	$138,100	$2,200	1.6
Ridgecrest	$142,700	$134,300	$8,400	6.3
Rosamond	$153,800	$155,800	-$2,000	-1.3
Taft	$122,300	$80,200	$42,100	52.5
Tehachapi	$161,800	$191,000	$-29,200	-15.3

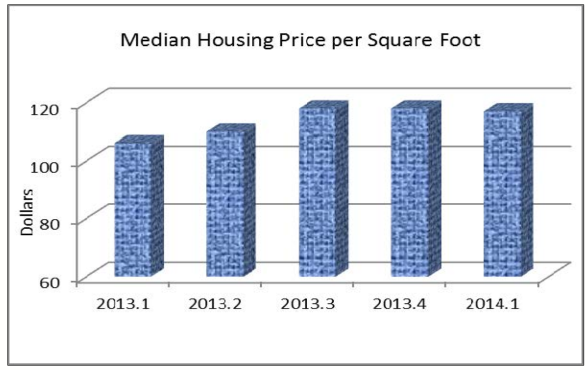
Housing Sales - In Kern County during the first quarter of this year, 427 fewer homes were sold as total sales decreased from 2,679 to 2,252. Likewise, 322 fewer units were sold this quarter relative to the first quarter of last year.



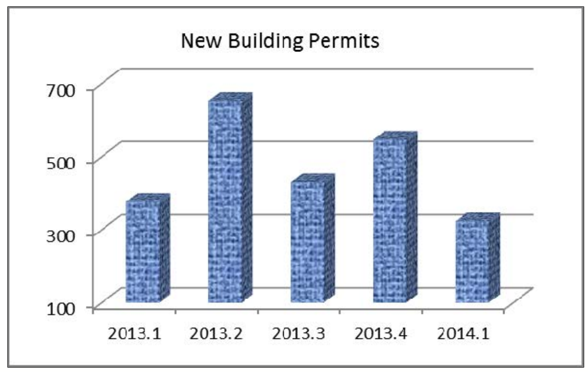
In Bakersfield, 275 fewer homes were sold as sales of residential units decreased from 1,876 to 1,601. Similarly, sales were down by 259 units this quarter relative to the first quarter of last year.



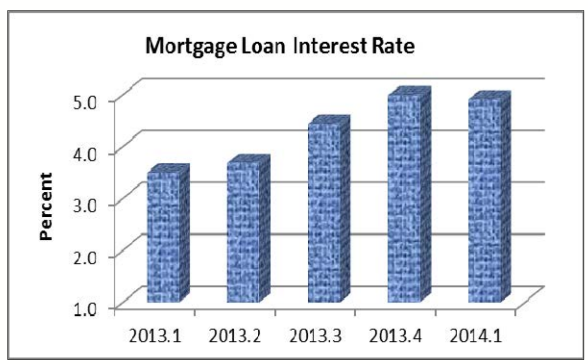
Housing Price per Square Foot - In the first quarter of 2014, the median sales price per square foot of housing area dropped $1 to reach $117. However, the median housing price per square foot has gone up $11 since the first quarter of last year.



New Building Permits - In the first quarter of 2014, Kern County issued 324 permits construction of new privately-owned dwelling units. The county issued 457 new building permits last quarter and 377 four quarters ago.



Mortgage Interest Rate - In the first quarter of 2014, the interest rate on thirty-year conventional mortgage loans dropped from 4.99 to 4.91 percent. Four quarters ago, the mortgage loan interest rate was 3.50 percent.



Housing Foreclosure Activity - In the first quarter of 2014, the county's foreclosure activity declined from 584 to 577. As a result, 7 fewer homeowners received notices of loan default from their mortgage bankers. However, the number of default notices has gone up by 74 since the first quarter of last year.

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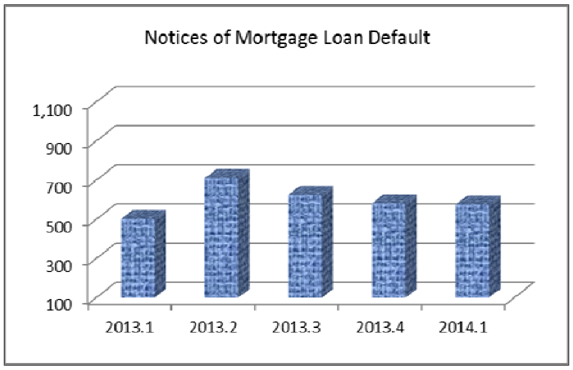
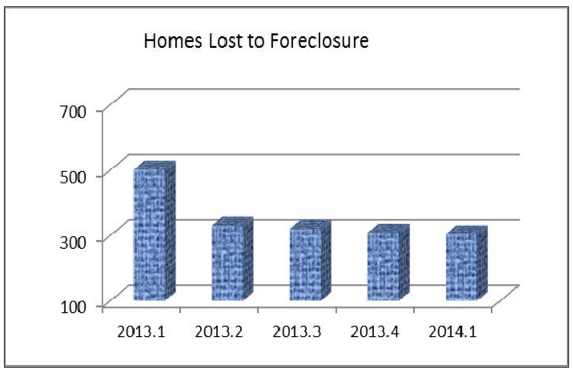
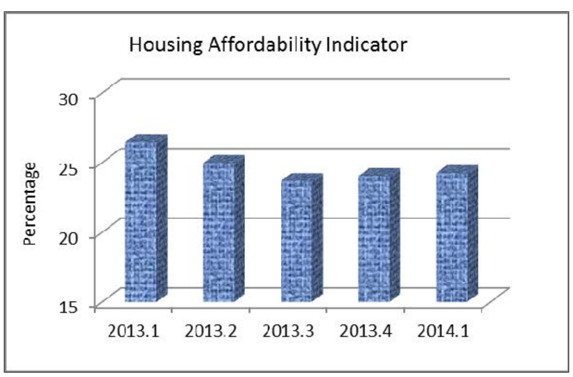


Meanwhile, the number of homes lost to foreclosure decreased from 309 to 304. As a result, 5 fewer homes were lost to foreclosure. Likewise, 198 fewer homes were lost to foreclosure this quarter relative to four quarters ago.

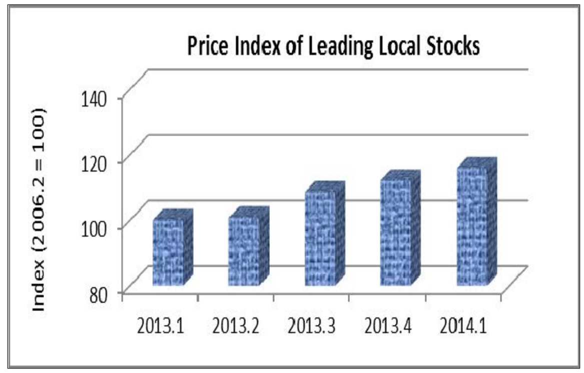


Housing Affordability - Median housing prices divided by median household income is a measure of housing affordability. With depreciation of housing prices and stagnant household income, the affordability indicator grew slightly to 24.2 percent this quarter from 24.0 percent in the previous quarter. The housing affordability indicator was 26.5 percent four quarters ago.

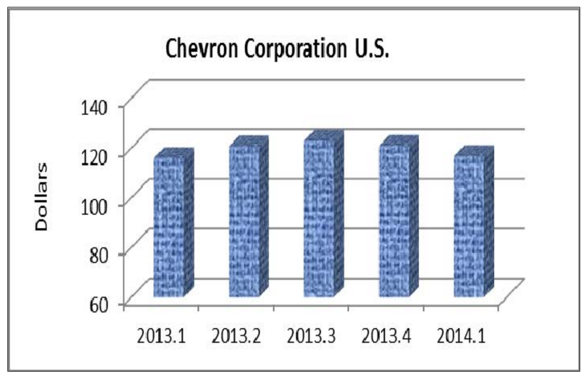


Stock Market

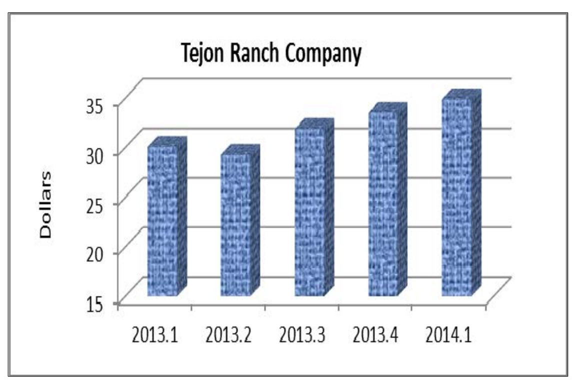
In the first quarter of 2014, the composite price index (2013.4 = 100) of the five publically traded companies doing business in Kern County increased 3.7 percentage points from 112.2 to 115.9. The index was 15.9 points higher than that of four quarters ago. Average "close" prices were measured for five local *market-movers*: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.



Chevron Corporation US - CVX lost $4.16 (or 3.4 percent) per share as its price decreased from $120.92 to $116.76. Relative to the first quarter of 2013, CVX has made 77¢ (or 0.7 percent).



Tejon Ranch Company - TRC made $1.37 (or 4.1 percent) per share as its stock price climbed from $33.55 to $34.88. Likewise, TRC was up $4.82 (or 16.0 percent) relative to the first quarter of 2013.



Granite Construction - GVA gained $4.64 (or 14.8 percent) per share as its stock price increased from $31.33 to $35.97. Similarly, GVA has gone up $1.94 (or 5.7 percent) since the first quarter of 2013.

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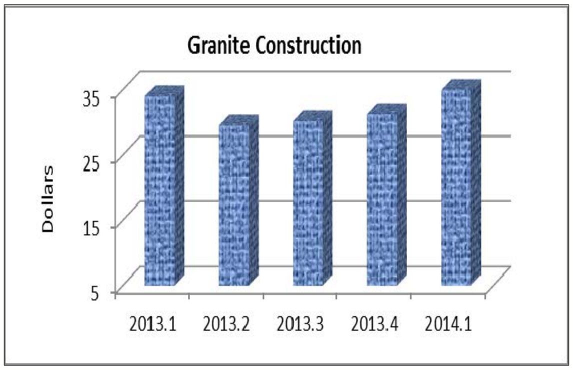
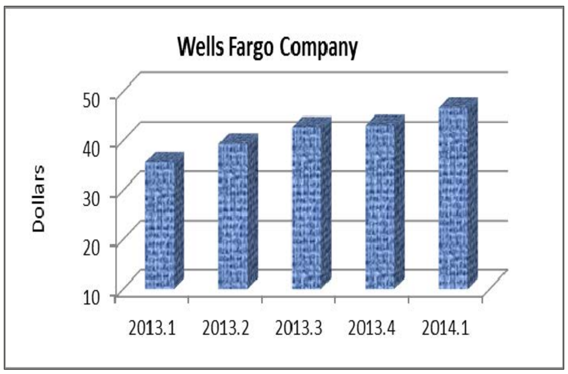
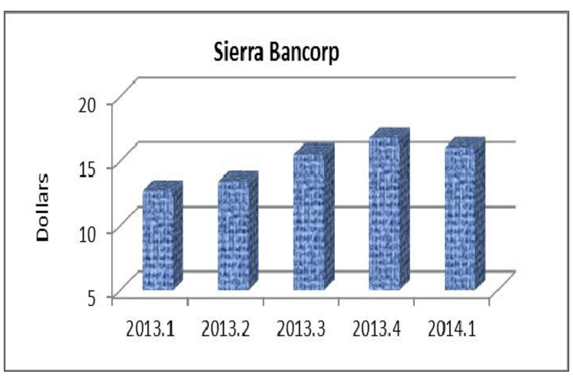


Wells Fargo Company - WFC made 3.55 (or 8.2 percent) per share as its stock price ascended from $43.05 to $46.60. Relative to one year ago, WFC was up $10.95 (or 30.7 percent).

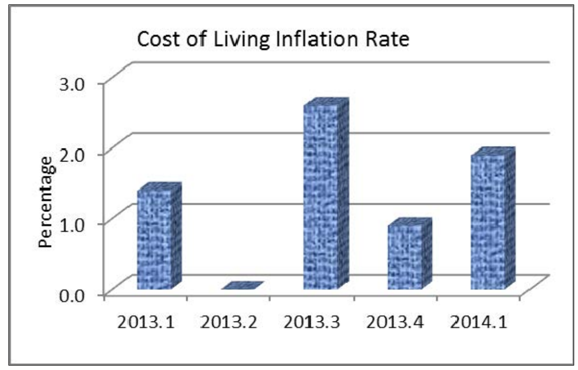


Sierra Bancorp - BSRR lost 75 (or 4.5 percent) per share as its price declined from $16.80 to $16.05. Nevertheless, BSRR has gone up $3.35 (or 26.4 percent) since the first quarter of 2013.

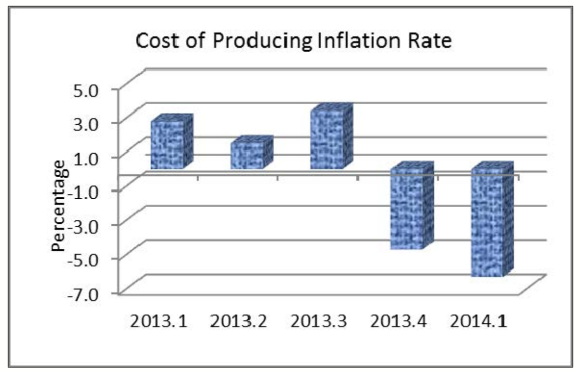


Inflation

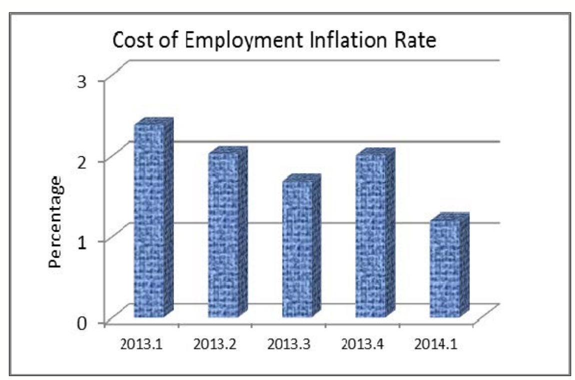
Cost of Living - In the first quarter 0f 2014, the Consumer Price Index for all urban areas (1982-84 = 100) inclined from 234.1 to 235.2. As a result, inflation for the cost of living accelerated at an annual rate of 1.9 percent. The cost of living inflation rate was 0.9 percent last quarter and 1.4 percent four quarters ago.



Cost of Producing - The Producer Price Index for finished consumer goods (1982 =100) decreased from 209.3 to 206.0. As a result, the cost of production dropped at an annual rate of 6.3 percent. The cost of producing inflation rate was -4.7 percent last quarter and 2.8 percent four quarters ago.



Cost of Employment - The Employment Cost Index (December 2005 = 100) for all civilian workers increased from 120.1 to 120.5. As a result, the cost of employment grew at an annual rate of 1.2 percent. The cost of employment inflation rate was 2.0 percent last quarter and 2.4 percent four quarters ago.



Commodity Prices

Price of Gasoline - In Bakersfield, the average retail price of regular gasoline increased 6¢ per gallon from $3.64 to $3.70. Compared with the fourth quarter of last year, the average gasoline price was down 25¢.

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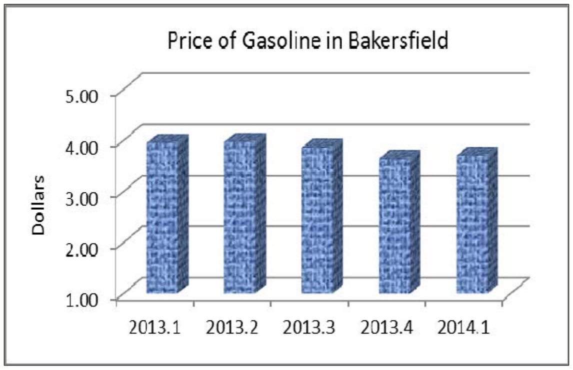
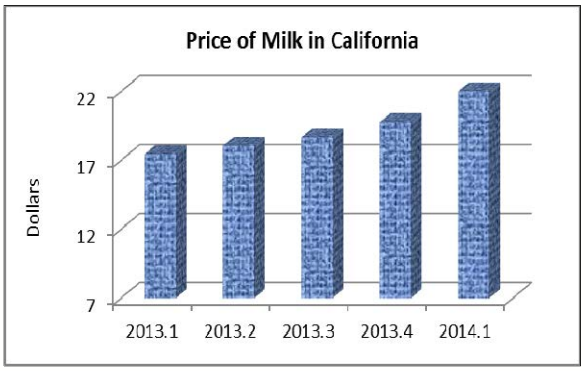
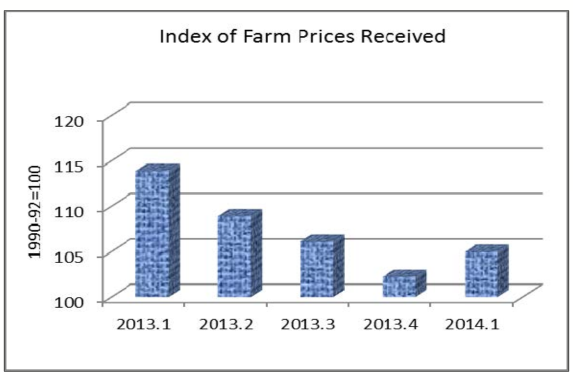
Tracking *(Continued from page 11)*



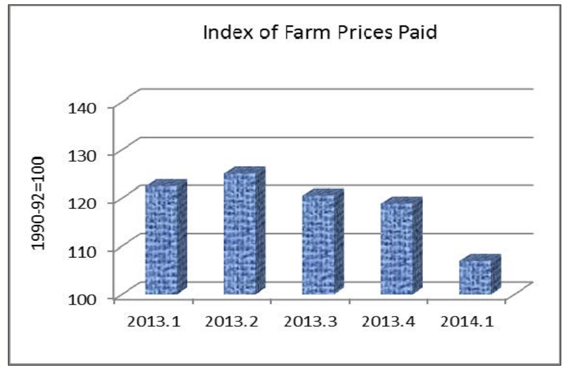
Price of Milk - The unit price of California's Class III milk increased \$2.93 (or 14.8 percent) from \$19.77 to \$22.72. Likewise, milk prices have gone up \$5.28 (or 30.3 percent) since the first quarter of 2013.



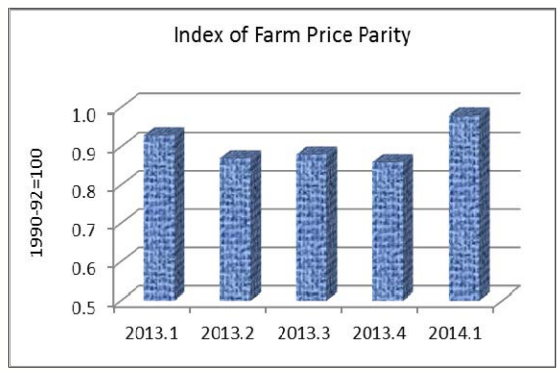
Farm Prices - In the first quarter of 2014, the national Index of Prices Received by Farmers for all farm products (2011 = 100) climbed 3 points from 102 to 105. However, the index was 19 points lower than that of four quarters ago.



Meanwhile, the national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents dropped 12 points to reach 107. The index was 15 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 first quarter of 2014, the gap between prices paid and prices received narrowed as the Index of Farm Price Parity rose from 86 to 96 percent. Four quarters ago, the price ratio was 93 percent.



Econ Brief *(Continued from page 1)*

bution centers here, the most recent being Ross Dress For Less, whose massive 1.7 million square foot "fulfillment center" is about 75% complete in Shafter's Paramount Logistics Park.

And did you know that Kern County ranks best in the nation during the period 2001-2012 for "best performing GDP growth?" Throw in the fact that the cost of doing business here is only 93% of the *national* average, and that the cost of living is but 97% of the *national* average—in California?—and we've got a pretty nice thing going here. All this could make for an effective ad. Wouldn't you know? Richard Chapman over at the KernEDC did just that. Check it out!

Ridgecrest: Technology City

Mark Evans, CSUB Economics Department & Small Business Development Center

Let's start with that all-too-familiar narrative: manufacturing has suffered a dramatic decline; we are in the midst of a hollowing out of the middle class. Manufacturing almost single-handedly created America's vibrant middle class. Family living standards doubled between 1946 and 1978 and have been stagnant ever since. Not coincidentally, manufacturing employment peaked at around 20 million in 1978 with annual job losses averaging 375 thousand over the last 30 years.

Yet, every nation has a comparative advantage in something. While manufacturing with well-established technologies has shifted from high-wage to low-wage countries, the United States retains world leadership in innovation. This dynamism is not evenly distributed, but is centered in various innovation hubs. Growth in these technology cities is self-reinforcing since knowledge-based firms must locate in close proximity to the specialized work force and services they require. As Enrico Moretti commented in The New Geography of Jobs, inequality and stagnant family incomes are as much about geography as anything else. There are regional winners as well as losers.

Darrene Hackler, currently with U.C. Davis, published a study of technology cities in 2006 titled Cities in the Technology Economy. Hackler defined two types of technology industries, disaggregated each type into subsectors, and developed city rankings for each sector and subsector based on the percent of regional employment in these technology sectors.

In her first type of technology industry, Technology Employers, workers in the scientific and technical occupations represent a large share of total industry employment. This technology sector has six subsectors: oil and gas extraction, chemical manufacturing, machinery and equipment manufacturing, wholesale professional equipment and supplies, information, and research and development. Ridgecrest ranked second nationally (behind Sunnyvale) with Technology Employers generating nearly 18 percent of total city employment.

Hackler's second type of technology industry, Technology Generators, is a subset of Technology Employer industries having large R&D budgets and large employment shares in occupations that focus on R&D. This subset is a residual derived by excluding Technology Employers in oil and gas extraction, manufacturing in mature industries, business-function-related management and consulting, internet service, and other communications providers. Ridgecrest also ranked second nationally among the Technology Generators with an employment share of 16.5 percent.

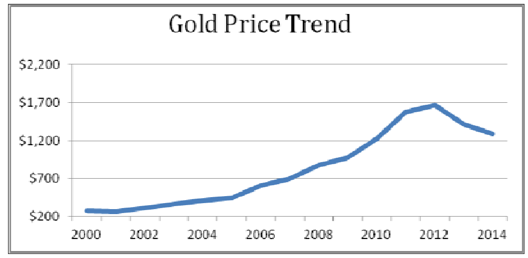
Ridgecrest's geographic isolation is an important contributor to its lofty standing as a technology city. Because of this isolation, R&D's employment share is not diluted by other basic industries. One would expect this to result in less "watering down" of salaries from basic industries with lower pay scales, less income inequality for this same reason, more affordable housing due to lesser population pressure, and a greater quality of life due to less time loss from commuting. That is, one would expect more of the good things slipping away elsewhere due to a hollowing out of the middle class and/or urban population growth. This is exactly what one finds in Ridgecrest. According to three-year estimates from the American Community Survey, median family income is nearly $61,000 compared to the national average of $53,000, exceeding the national average by $12,000 for males and by nearly $4,000 for females. Sixty-four percent of Ridgecrest's families have a comfortable middle class income between $50,000 and $200,000 compared to 56 percent nationally and statewide. The vibrant middle class means that fewer Ridgecrest families have an income less than $25,000 and fewer have incomes greater than $200,000 compared to the U.S. and California. The Gini Coefficient, an economic measure of inequality, is just 0.389 in Ridgecrest compared to 0.475 in California and 0.471 for the U.S. The median home price is $184,200 in Ridgecrest compared to median prices in the $500,000 range for other technology cites (e.g. San Jose, San Diego and Bellevue, Washington). The average work commute is just 15 minutes.

Going forward, Ridgecrest's leaders are pursuing a strategy to expand China Lake's world class Research, Development, Testing, and Evaluation infrastructure to nonmilitary applications of unmanned aircraft systems (i.e., "drones"). The mission of Cal UAS, housed at Inyokern Airport, is to advance the development and use of unmanned air systems. Applications in agriculture alone are mind-boggling. In addition to agriculture, one of just 16 innovation hubs (iHUB) created and supported by the Governor's Office, is directed by Eileen Shibley, who also is Executive Director of Cal UAS. Its niche in the statewide iHUB network is defense, energy, and aerospace (aptly named iDEA iHUB). The state of California, in other words, considers Ridgecrest to be a vital partner in keeping California on the leading edge of the innovation economy.

It's Gold You're Talking About!

Abbas Grammy

In recent years, we have witnessed a steep rise in the price of gold. In light of global financial crisis, investors picked up gold in frenzy, and that frenzy paid off as gold prices reached unanticipated record highs. Since 2000 the average price of gold has increased nearly five fold. The price of an ounce of gold nearly doubled from $279 in 2000 to $445 in 2005 and climbed to $972 in 2009. The gold price skyrocketed to $1,225 in 2010, $1,572 in 2011, and $1,696 in 2012. The gold price then fell to $1,411 in 2013 and $1,291 in the first three months of this year[1].



To explore reasons for such an unprecedented price hike, we study the demand and supply of gold.

Demand for Gold

Gold has retained its grand status throughout history with a steady demand. Originally, traders used gold as a "medium of payment" and investors kept gold as a "store of value." Also, gold has been worn as jewelry, used in coinage, and applied in industry. Moreover, gold has been adopted as a "backing of currency" by various monetary systems around the world. Nowadays, the SPDR Gold Trust (GLD), the largest physically backed gold exchange traded fund in the world, has gained enormous popularity with investors wanting to incorporate more gold into their portfolios. Recent estimates indicate that the quantity demanded for gold is approximately 920 tons per quarter. The world consumption of newly mined gold is about 50 percent in jewelry, 40 percent in investment, and 10 percent in industry[2].

Supply of Gold

Nearly, a total of 173,000 tons of gold had been mined in human history as of 2012. In 2012 alone, world gold production reached 2,700 tones. Leading suppliers of gold are China, Russia, the United States, Australia, and South Africa. The quantity supplied of *new* gold totals approximately 625 tons per quarter[3]. Official figures estimate that almost 25 percent of the world's gold produce is harvested from mines that are too small to be recorded.

Another valuable source of supply is *recycled* gold. It is obtained from old jewelry pieces and various retired industrial parts like electronic and spacecraft equipment. Overall, the supply of *recycled* gold has remained unchanged. The reason is that only ownership changes. Since gold is not a consumable, its inventory stays constant.

Factors Affecting Price of Gold

Investors use gold as a *hedge* against economic crisis and political turmoil. We have witnessed an unprecedented rise in gold prices due to recent financial crisis in the United States and Europe. In particular, the downfall of the banking system in the United States and continued debt crisis in Europe drove investors toward gold. Gold prices began to rise as a result of such a big boost in the demand. The pressure on the gold demand escalated with a weakening dollar and a collapsing euro.

Anne-Laure Tremblay, an analyst at BNP Paribas, has appraised the status of the gold market:

> *Gold's fundamentals are strong and the recent rebound in risk appetite has encouraged investors to come back to the market or add to their existing positions. Anecdotal evidence suggests that bar and coin demand remains high in the U.S. and Europe, with physical gold being bought as a safe haven. We expect gold to reach new highs in 2012, although episodes of extreme risk aversion may trigger corrections along the way*[4].

With economic recovery in the United States and successful bailout of troubling European economies, gold prices has had a tendency to fall. However, the gold "bubble" is unlikely to burst since there is much uncertainty in the market for crude oil and political turmoil around the world. The price of imported oil would remain high because of threat of international terrorism and continued violence in Iraq, Afghanistan, Syria, Nigeria, and Ukraine. As long as the international oil market is fragile, oil prices will stay high and gold prices will follow.

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[1] http://www.kitco.com/scripts/hist_charts/yearly_graphs.plx

[2] *Steadman, E.*, "Understanding Gold: Demand and Supply Economics," equities.com, March 15, 2012, http://editorial.equities.com/commodities/understanding-gold-demand-and-supply-economics

[3] Ibid.

[4] Anderson, J., "Gold Prices: Bull Market or Fool's Gold?," equities.com, February 2, 2012, *http://editorial.equities.com/commodities/gold-prices-bull-market-fools/*