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SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



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2014 Second Quarter

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California State University, Bakersfield*

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

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Editorial and analytical articles on important local, regional, national, and international issues and trends are invited for *consideration* of publication in the journal. Articles (not exceeding 800 words in length) must be submitted to the Managing Editor in hard or electronic copy. Individual authors are responsible for the views and research results.

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Cover Photo by Gary Bunk – 204 high school students participated in *Enterprise College: Economics for Future Leaders*, CSUB: June 16 - July 3, 2014. The program is made possible by a generous donation from Mid State Development Corporation.

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Econ Brief!

California's Tourism Industry Rebounds

David Lyman
Manager, Convention and Visitor Bureau

Over 235 million people traveled in California in 2013, spending \$109.6 billion in the state, an all-time high in both actual and inflation-adjusted dollars, according to a new report from the state's tourism industry.

That spending generated \$2.8 billion in local tax revenues and \$4.3 billion in state tax revenues, says Visit California (formerly known as the California Travel & Tourism Commission), a non-profit organization. Accordingly, California's travel industry employed 965,800 people, the highest number recorded since 1992 when employment data started being tallied.

"California tourism is on the rise, and that means new potential for creating jobs and increasing economic impact throughout the state," says Caroline Beteta, president and CEO of Visit California. "When visitors from around the world choose to visit California, the benefits of our \$110 billion industry are felt across numerous segments and ultimately help sustain our local communities."

The report paid for by Visit California and carried out by travel industry research firm Dean Runyan Associates, details the economic impacts of travel to and through California from 1992 to 2013.

The more than \$7 billion in state and local tax revenue generated by direct travel spending in California is equivalent to \$550 of tax revenue for each household in the state, the report says. Local tax revenue increased 6.4 percent from 2012, driven by increased hotel room demand. In 2012, most counties had gains in local tax revenue compared to their returns in 2011.

(Continued on page 12)

ECONOMY AT A GLANCE!

2014 SECOND QUARTER

ABBAS P. GRAMMY

National Economy

The United States - the largest world's economy of \$16.1 trillion - grew at a rapid rate. The real Gross Domestic Product (GDP) increased at an annual rate of 4.0 percent in the second quarter from a revised 2.1 percent decline in the first quarter. The increase in the GDP in the second quarter primarily reflected positive contributions from personal consumption expenditures, exports, private inventory investment, nonresidential fixed investment, residential fixed investment, and state and local government spending. They were partly offset by negative contributions from imports.

The Conference Board's Index of Leading Economic Indicators - a measure of future economic activity - improved from 100.0 to 101.4, indicating continued economic growth over the next six to nine months. Likewise, the University of Michigan's Consumer Sentiment Index increased from 81 to 83. 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 3.0 percent; the cost of producing climbed 12.4 percent; and the cost of employment rose 2.8 percent.

State Economy

In California, the unemployment rate dropped to 7.2 from 8.1 percent. Among counties, San Francisco (4.5 percent), Orange (5.0 percent), Santa Clara (5.2 percent), San Luis Obispo (5.1 percent), San Diego (6.0 percent), and Sacramento (6.9 percent) had unemployment rates below the state average. In contrast, Los Angeles (7.9 percent), Riverside (8.2 percent), and Fresno (11.0 percent) had unemployment rates above the state average.

The state's civilian labor force added 28,200 members, which consisted of 111,800 more workers gaining jobs and 83,600 fewer workers being unemployed. While farming enterprises employed 2,900 fewer workers, nonfarm industries hired 112,400 extra workers. A wide range of industries added jobs: mining, construction, wholesale trade, retail trade, transportation and warehousing, information, real estate, professional and business services, educational services, health-care and social assistance, leisure and hospitality, and state government. Jobs were lost in manufacturing, finance and insurance, and federal and local governments.

Local Economy

In Kern County, household perceptions became less pessimistic about employment and financial conditions of their families and relatives as the *Bakersfield Consumer Sentiment Index* increased to 98 from 95. Meanwhile, local businesses became more optimistic about local employment

and financial conditions as the *Kern County Business Outlook Index* leaped to 125 from 120.

In the meantime, the county's economy expanded at an annual rate of 2.7 percent. Kern's economy generated \$16.1 billion in real personal income, \$160 million more than the previous quarter. Likewise, personal income per worker gained \$600 to reach \$43,100.

Labor market conditions improved in the second quarter of 2014. The county hired 6,700 more workers. The farming industry hired 10,600 more workers and nonfarm enterprises added 2,130 workers. Private enterprises employed 2,400 more workers and local government agencies offered jobs to 100 more laborers. Meanwhile, 8,300 fewer workers were unemployed, dropping the rate of unemployment from 13.6 to 11.4 percent. While below the county average, the rate of unemployment was 6.0 percent in Ridgecrest, 6.6 percent in Tehachapi, 7.3 percent in Bakersfield, and 8.3 percent in California City.

Likewise, housing market conditions improved in the second quarter of 2014. The county's median sales price for all residential units appreciated \$8,350 (or 4.8 percent) from \$175,000 to \$183,350. In Bakersfield, the median housing price increased \$11,300 from \$193,400 to \$204,700. In Kern County, 704 more homes were sold as total sales increased from 2,252 to 2,956. In Bakersfield, 471 more homes were sold as sales of residential units rose from 1,601 to 2,072. The County of Kern issued 345 permits for construction of new privately-owned dwelling units, 21 more permits from the previous quarter. Housing became slightly less affordable as the affordability indicator dropped to 23.3 from 24.2 percent. The number of notices of loan default homeowners received from their mortgage bankers dropped from 577 to 553 and the number of homes lost to foreclosure decreased from 304 to 299.

In Bakersfield, the average retail price of regular unleaded gasoline increased 45¢ from \$3.70 to \$4.15 per gallon. The unit price of California's Class III milk increased 3¢ from \$22.7 to \$22.75. The index of prices farmers received for their outputs jumped 8 points to reach 113 and the index of prices farmers paid for their inputs leaped 5 point to arrive at 112. As a result, the gap between output prices farmers received and input prices farmers paid narrowed from 96 to 98 percent. The composite price index of the top five locally traded stocks rose from 115.2 to 115.8. While the average stock price improved for Chevron Corporation, Wells Fargo Company, and Granite Construction, it declined for Tejon Ranch Company and Sierra Bancorp.

BUSINESSE OUTLOOK BRIGHTENS IN SECOND QUARTER



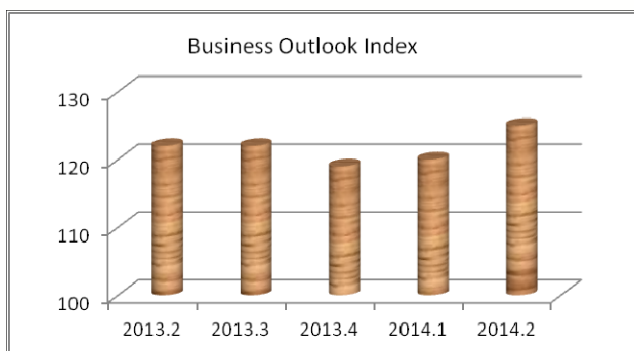
ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

Results of the Business Outlook Survey indicate that Kern County business managers have become more confident about local employment and business conditions. In the second quarter (April through June) of 2014, the *Business Outlook Index* increased to 125 from 120. Relative to four quarters ago, the index number gained three points.

Comparing with the previous quarter survey, we can see signs of improved perception. The percentage of positive responses increased from 31 to 35, the percentage of neutral responses dropped from 58 to 52, and the percentage of negative responses declined from 11 to 9.

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* jumped to 122 from 111, whereas the *Future Conditions Index* dropped to 126 from 129. These results indicate while business managers express more confidence about current conditions, they are slightly less optimistic about conditions of the next quarter.



Employment Outlook:

Seventy percent of interviewees reported that the number of jobs in their companies stayed constant this quarter. However, 21 percent said more jobs were available in their companies and 9 percent reported reduced employment.

Likewise, 71 percent perceived that the number of jobs would stay constant next quarter, whereas 21 percent expected their companies to hire more workers. The remaining 8 percent anticipated a smaller workforce.

Financial Outlook:

Fifty-one percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter, whereas 38 percent indicated increased sales and profits and 11 percent stated reduced sales and profits.

Similarly, 47 percent expected financial conditions of their companies would remain constant next quarter. However, 48 percent anticipated increased sales and profits and 5 percent predicted reduced sales and profits.

Industry Outlook:

Fifty-eight 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 12 percent indicated crumbling business conditions.

Fifty-nine percent anticipated that the employment and general business conditions of their industries would stay unchanged next quarter. Yet, 33 percent expected progress and 8 percent felt otherwise.

Kern County Business Outlook			
	Current Quarter	Previous Quarter	Four Quarters Ago
Business Outlook Index	125	120	122
Current Conditions Index	122	111	121
Future Conditions Index	126	129	124

(Continued on page 5)

BAKERSFIELD CONSUMER SENTIMENT IMPROVES IN SECOND QUARTER

MARK EVANS

ECONOMICS PROFESSOR AND CHAIR, CSUB



The Bakersfield Consumer Sentiment Index recovered to 98 in the second quarter of 2014 after receding from 100 in the fourth quarter of 2013 to 95 in the first quarter of 2014. Meanwhile, the Thomson Reuters/University of Michigan index measuring consumer sentiment at the national level increased from 81 to 83. The national sentiment index stood at 82 at the end of 2013.

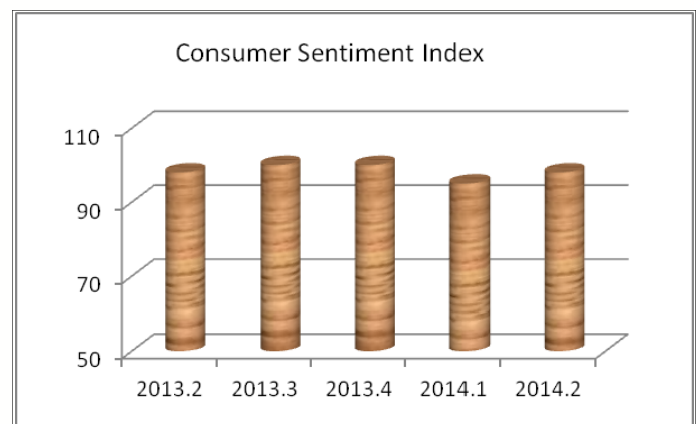
Both the local and national indexes are based on random telephone surveys. While the two indexes usually exhibit a similar pattern of movement from quarter to quarter, their magnitudes cannot be directly compared since they are constructed differently. Compared to quarterly readings since 1999 when CSUB's Economics Department began compiling the local index, Bakersfield has recorded a higher level of consumer sentiment roughly two-thirds of the time. The national index achieved a higher reading than its current level 55 percent of the time over this same period.

The Bakersfield index is disaggregated into sub-indexes measuring recent conditions and future expectations. The current conditions sub-index increased bullishly, while expectations were unchanged.

The sub-index measuring the current situation of households increased from 96 in the previous quarter to 104, which happens to be the median reading since 1999. The improvement was attributable to a small uptick in discretionary spending combined with a significant increase in financial well-being. The percentage of households reporting they spent more than usual on discretionary items increased by two percent, while the percentage reporting they spent less than usual decreased by three percent. However, the percent of sample reporting they made a "big ticket purchase" (e.g., furniture, appliances, electronics, car, home improvement) decreased from eight to six percent. Roughly one-in-three respondents reported their family was better off financially compared to one year ago compared to just one-in-five in the first quarter. The percent reporting they became worse off financially over the past year decreased from one-in-four to roughly one-in-seven.

The sub-index measuring expectations for the coming year remained unchanged at 93, a restrained level of optimism that has been exceeded three-fourth of the time since 1999. The response pattern suggests a feeling of normalcy, as there were sharp declines in the percent of households expecting their financial situation to improve (decrease from 31 to 19 percent) and the those expecting their situation to worsen (decrease from 29 to 18 percent). That is, roughly three-in-five households expect their financial situation to remain the same, with the one-in-five who expect improvement offset by one-in-five who expect things to worsen or become more risky. Respondents perceived their acquaintances in Kern County to be more optimistic than in the previous quarter. There was nearly a ten percent shift from those reporting their acquaintances had a neutral view of the future (from 60 to 51 percent) to those reporting local acquaintances were optimistic about the coming year. However, this positive influence on the expectations sub-index was offset by a more bearish view regarding spending. While there was little change in the percent who thought this was a safe time to use savings or incur debt to buy an expensive good, the percent who thought this was a risky time increased from 32 to 39 percent.

In summary, the latest survey of consumer sentiment in Bakersfield seems to paint a picture of improving financial health achieved through prudent spending.



(Continued on page 5)

Table 1: Index Values			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	98	95	98
Sub-index: Current Conditions	104	96	102
Sub-index: Future Expectations	93	93	94

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)	23 %	53 %	24 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	34 %	51 %	15 %
How your acquaintances in Kern County are doing financially compared to one year ago.	12 %	69%	19 %

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	19%	63 %	18 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	21 %	51 %	28 %
	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?	23 %	37 %	39 %

Kern Business (Continued from page 3)

Economic Outlook:

When asked about Kern County’s economy, 55 percent of interviewees perceived no change this quarter. Nevertheless, 36 percent felt conditions improved and 9 percent said conditions worsened.

Likewise, 50 percent felt that economic conditions would remain unchanged next quarter. However, 37 percent anticipated the economy would get better and 13 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 economic conditions
- Increased consumer spending
- Construction boom

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

- Affordable Healthcare Act (The Obama Care)
- Severe drought hurting agriculture and dairy industries
- Over-regulation of business in California

TRACKING KERN'S ECONOMY¹

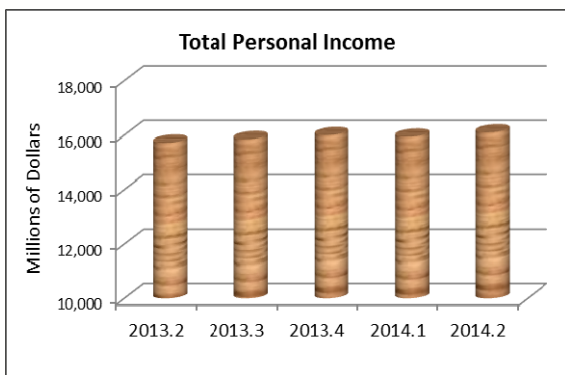
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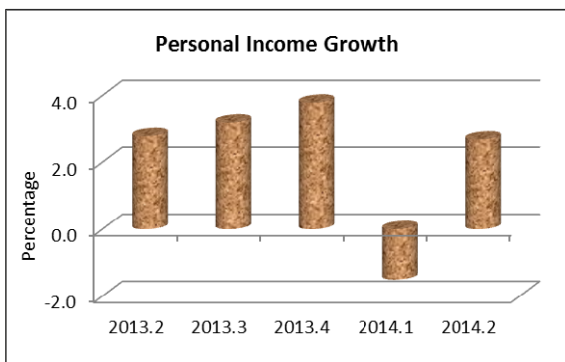
PROFESSOR OF ECONOMICS, CSUB

Economy

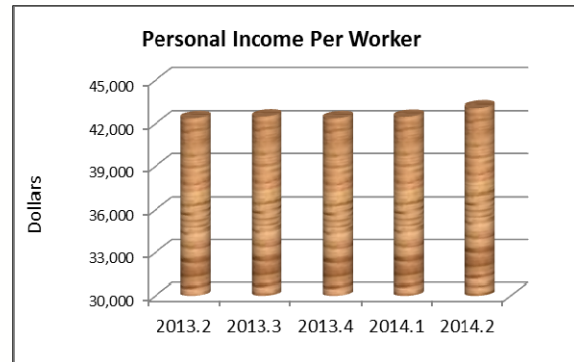
Personal Income - Kern County's total personal income (in constant 1996 dollars) increased \$160 million from \$15.94 billion to reach \$16.1 billion. The main factors contributing to this expansion were more jobs and incomes, falling unemployment, rising property values, and increasing business activity. Relative to four quarters ago, Kern County's economy generated \$380 million more income.



Growth of Personal Income - The gain of \$160 million in personal income translated to an annual growth rate of 2.7 percent. Kern's economy contracted 1.5 percent in the previous quarter, but expanded 2.8 percent four quarters ago.



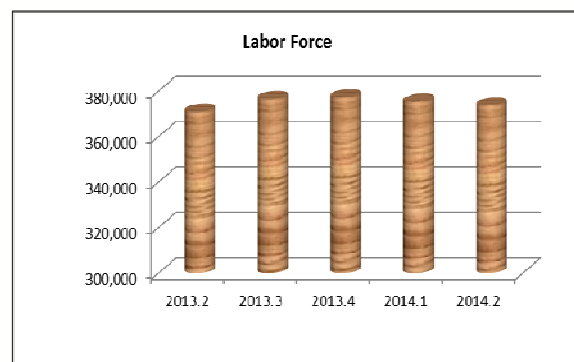
Personal Income Per Worker - The gain in total personal income was coupled with a reduction in the labor force. As a result, personal income per worker gained \$600 to reach \$43,100. Likewise, personal income per worker was up \$700 this quarter relative to four quarters ago.



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.

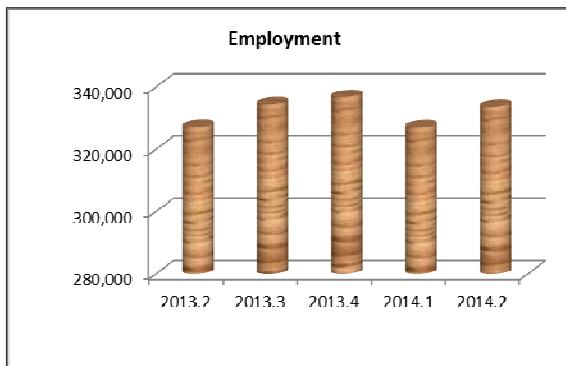
Labor Force - The civilian labor force decreased by 1,600 members from 375,130 in the first quarter to 373,530 in the second quarter of 2014. However, 2,780 more workers were available for work this quarter relative to the second quarter of 2013.



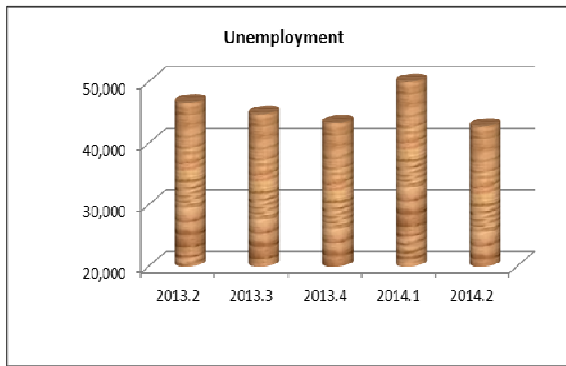
Employment - In the second quarter of 2014, Kern County hired 6,700 more workers as total employment inclined from 327,020 to 333,720. Compared with four quarters ago, the county employed 6,600 more workers.

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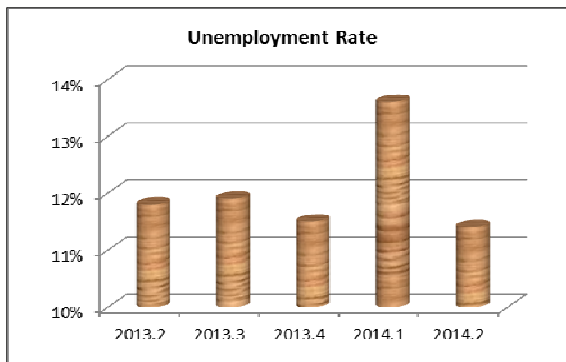
¹Source - Online databases: labormarketinfo.edd.ca.gov, bakersfieldgasprices.com, dqnews.com, economagic.com, bea.gov, bls.com, gpoaccess.gov, dairy.nu, msn.com, census.gov, kerndata.com, and bry.com



Unemployment - In the meantime, 8,300 fewer workers were unemployed as the number of jobless workers decreased from 51,020 to 47,720. Likewise, 3,910 fewer workers were unemployed this quarter than four quarters ago.



Unemployment Rate - Kern County's unemployment rate dropped from 13.6 percent in the first quarter to 11.4 percent in the second quarter of 2014. The county's unemployment rate was 11.8 percent four quarters ago.

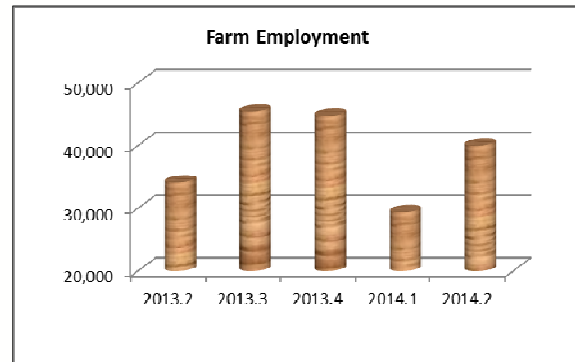


The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate varied between 6.0 percent in Ridgecrest and 28.6 percent in Arvin. In Bakersfield, the rate of unemployment was 7.3 percent.

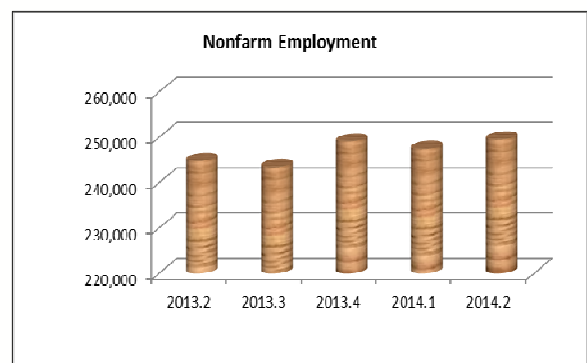
Unemployment Rate of Cities			
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Ridgecrest	6.0	Oildale	11.2
Inyokern	6.4	Mojave	11.9
Tehachapi	6.6	Lake Isabella	12.6
Bakersfield	7.3	Shafter	19.1
California City	8.3	Lamont	19.2
Rosamond	8.7	Wasco	19.9
Edwards	8.8	McFarland	22.5
Frazier Park	9.3	Delano	27.6
Taft	10.4	Arvin	28.6

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

Farm Employment - In the second quarter of 2014, Kern County hired 10,600 more farm workers. As a result, farm employment increased from 29,380 to 39,980. Similarly, the farming industry hired 5,860 more workers this quarter than four quarters ago.



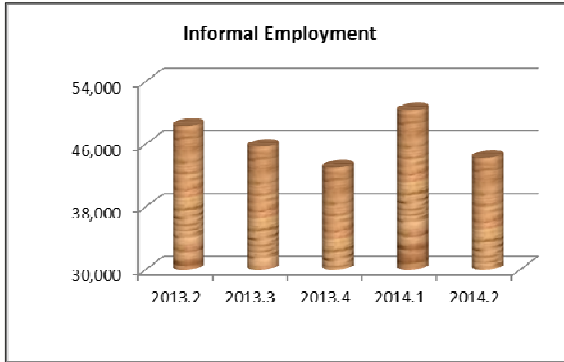
Nonfarm Employment - Local nonfarm industries employed 2,130 more workers this quarter. Hence, the number of nonfarm workers increased from 247,340 to 249,470. Relative to the second quarter of 2013, nonfarm industries hired 4,800 more workers.



Many nonfarm industries added jobs: oil and gas, construction, wholesale trade, retail trade, transportation and warehousing, information, real estate, leisure and hospitality, professional and business services, educational services, and state government. However, jobs were cut

in finance and insurance, health-care and social assistance, federal government, local public education, and county government.

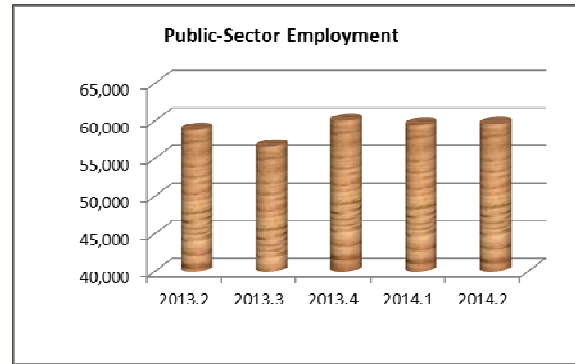
Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those working outside their county of residence. In the second quarter of 2014, the number of informal workers decreased by 6,030 from 50,300 to 44,270. Likewise, the informal labor sector hired 4,060 fewer workers this quarter relative to the second quarter of last year.



Private-Sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the second quarter of 2014, private companies hired 2,400 more workers as their employment increased from 187,500 to 189,900. Likewise, the private sector employed 4,430 more workers this quarter than four quarters ago.

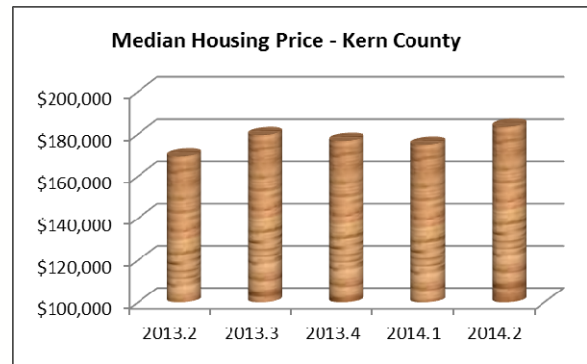


Public-Sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the second quarter of 2014, government agencies hired 100 more workers as their employment increased from 59,470 to 59,570. Similarly, the public sector employed 740 more workers this quarter than four quarters ago.

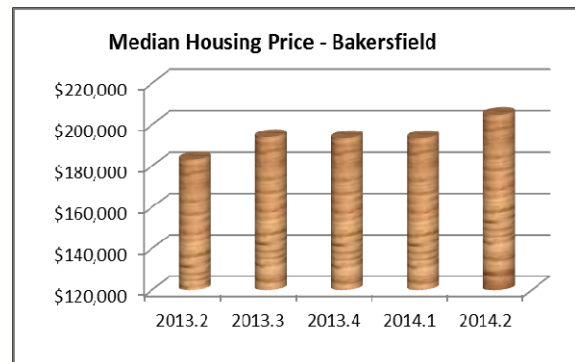


Housing Market

Housing Price - In the second quarter of 2014, Kern County's housing market recovered. The median sales price for all residential units appreciated \$8,350 (or 4.8 percent) from \$175,000 to \$183,350. Likewise, the county's median housing price was \$14,150 (or 8.4 percent) higher than that of the second quarter of 2013.



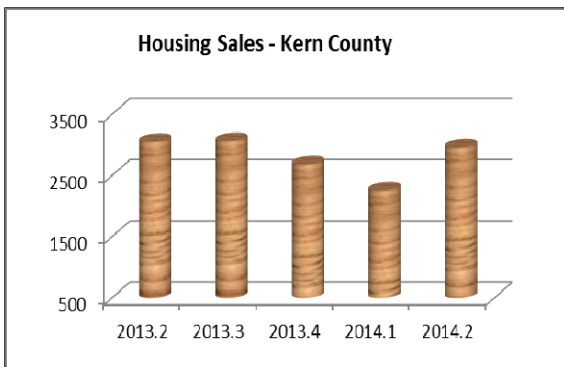
In Bakersfield, the median housing price appreciated \$11,300 from \$193,400 to \$204,700. The city's median housing price was \$21,400 (or 11.7 percent) higher than that of the second quarter of last year.



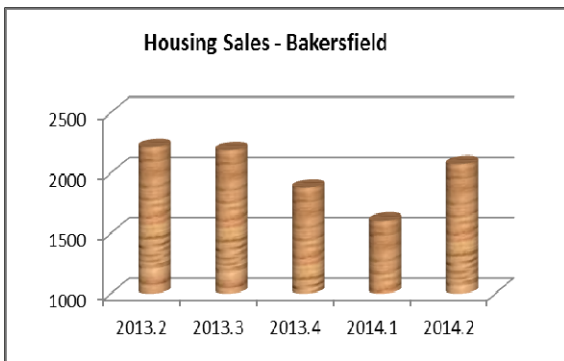
Housing price changes varied across the county. Among selected cities, the median sales price appreciated in Bakersfield, Rosamond and Tehachapi. In contrast, the median housing price depreciated in Delano, Ridgecrest, and Taft.

Location	Median Price 2014.2	Median Price 2014.1	Price Change 2014.2 to 2014.1	Price Change 2014.2-2014.1
Kern County	\$183,350	\$175,000	\$8,350	4.8
Bakersfield	\$204,700	\$193,400	\$11,300	5.8
Delano	\$138,200	\$140,300	-\$2,100	-1.5
Ridgecrest	\$139,700	\$142,700	-\$3,000	-2.1
Rosamond	\$161,250	\$153,800	\$7,450	4.8
Taft	\$91,300	\$122,300	-\$31,000	-25.3
Tehachapi	\$197,300	\$161,800	\$35,500	21.9

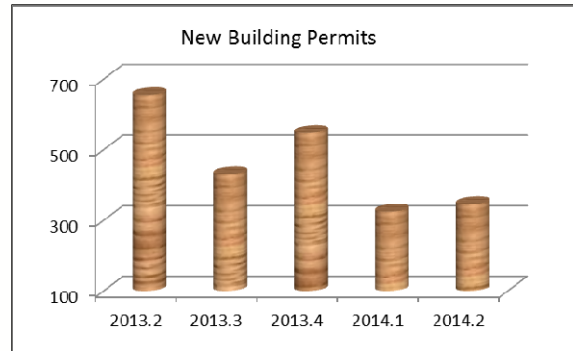
Housing Sales - In Kern County during the second quarter of this year, 704 more homes were sold as total sales increased from 2,252 to 2,956. However, 92 fewer units were sold this quarter relative to the second quarter of last year.



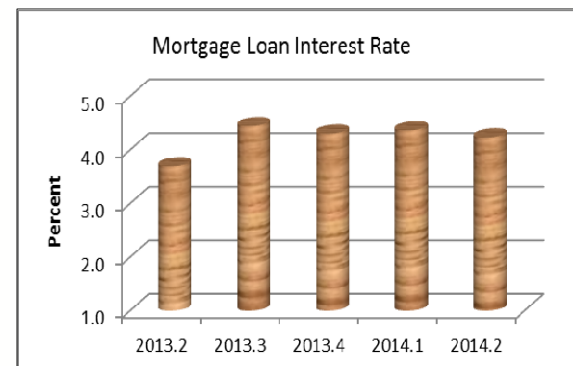
In Bakersfield, 471 more homes were sold as sales of residential units increased from 1,601 to 2,072. Nevertheless, sales were down by 141 units this quarter relative to the second quarter of last year.



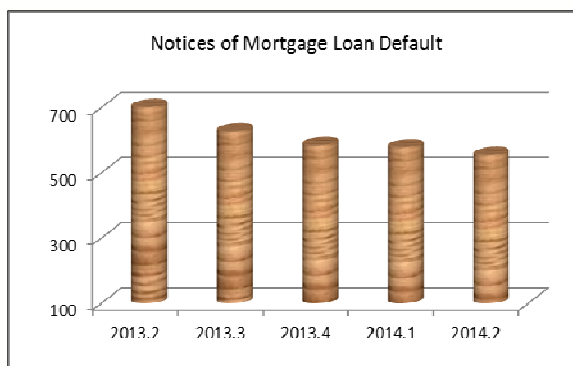
New Building Permits - In the second quarter of 2014, Kern County issued 345 permits construction of new privately-owned dwelling units. The county issued 324 new building permits last quarter and 654 four quarters ago.



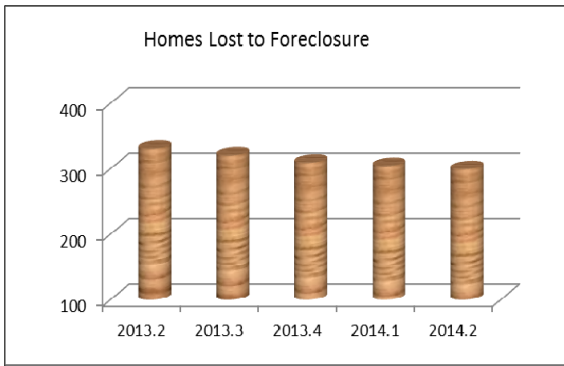
Mortgage Interest Rate - In the second quarter of 2014, the interest rate on thirty-year conventional mortgage loans dropped from 4.36 to 4.23 percent. Four quarters ago, the mortgage loan interest rate was 3.69 percent.



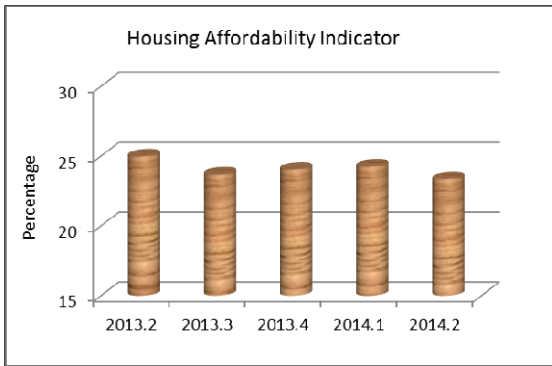
Housing Foreclosure Activity - In the second quarter of 2014, the county's foreclosure activity declined from 577 to 553. As a result, 24 fewer homeowners received notices of loan default from their mortgage bankers. Similarly, the number of default notices has gone down by 159 since the second quarter of last year.



Meanwhile, the number of homes lost to foreclosure decreased from 304 to 299. As a result, 5 fewer homes were lost to foreclosure. Likewise, 31 fewer homes were lost to foreclosure this quarter relative to four quarters ago.

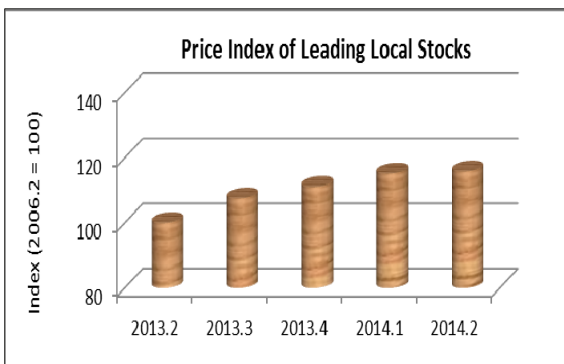


Housing Affordability - Median housing prices divided by median household income is a measure of housing affordability. With appreciation of housing prices and growth of household income, the affordability indicator dropped to 23.3 percent this quarter from 24.2 percent last quarter. The housing affordability indicator was 25.0 percent four quarters ago.

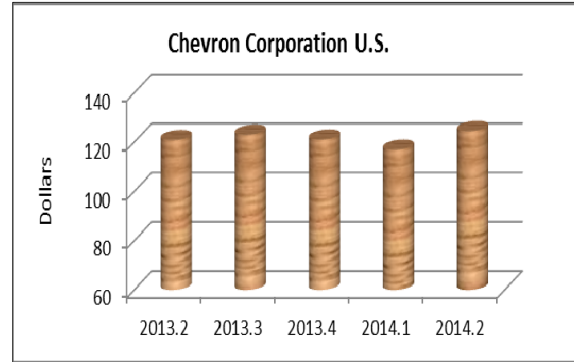


Stock Market

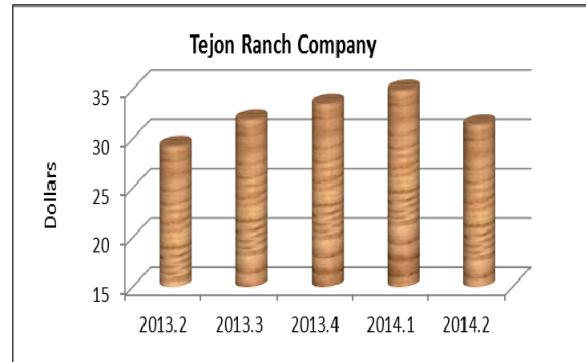
In the second quarter of 2014, the composite price index (2013.2 = 100) of the five publically traded companies doing business in Kern County increased 0.6 percentage points from 115.2 to 115.8. The index was 15.8 points higher than that of four quarters ago. Average “close” prices were measured for five local *market-movers*: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.



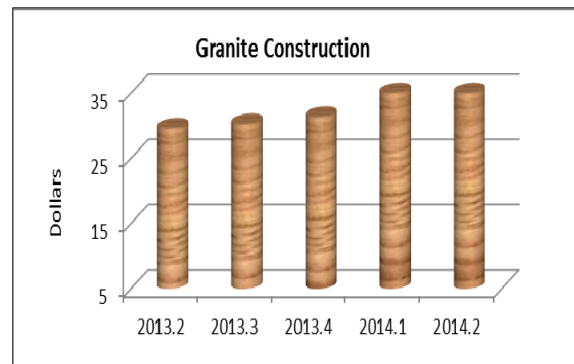
Chevron Corporation US - CVX gained \$7.60 (or 6.5 percent) per share as its price increased from \$116.76 to \$124.36. Relative to the second quarter of 2013, CVX has made \$3.67 (or 3.0 percent).



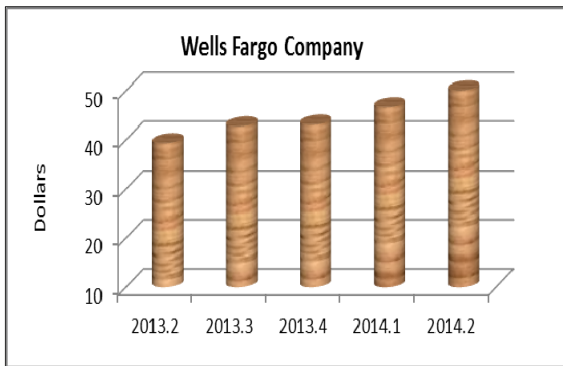
Tejon Ranch Company - TRC lost \$3.49 (or 10.0 percent) per share as its stock price dropped from \$34.88 to \$31.39. However, TRC was up \$2.15 (or 7.4 percent) relative to the second quarter of 2013.



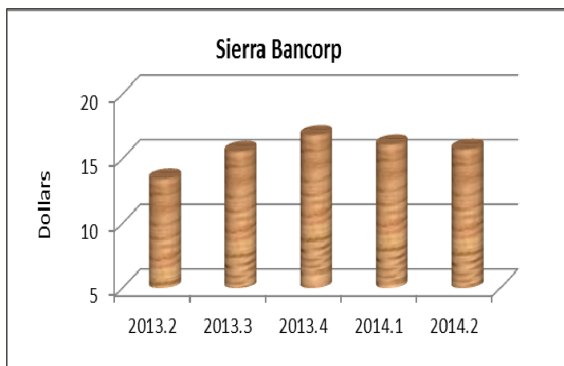
Granite Construction - GVA gained 59¢ (or 1.6 percent) per share as its stock price increased from \$35.97 to \$36.56. Similarly, GVA has gone up \$6.97 (or 23.6 percent) since the second quarter of 2013.



Wells Fargo Company - WFC made \$3.71 (or 8.0 percent) per share as its stock price ascended from \$46.60 to \$50.31. Relative to one year ago, WFC was up \$11.04 (or 28.1 percent).

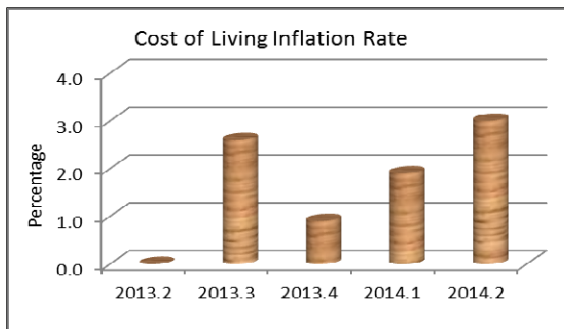


Sierra Bancorp - BSRR lost 34¢ (or 2.1 percent) per share as its price declined from \$16.05 to \$15.71. Nevertheless, BSRR has gone up \$2.29 (or 17.2 percent) since the second quarter of 2013.

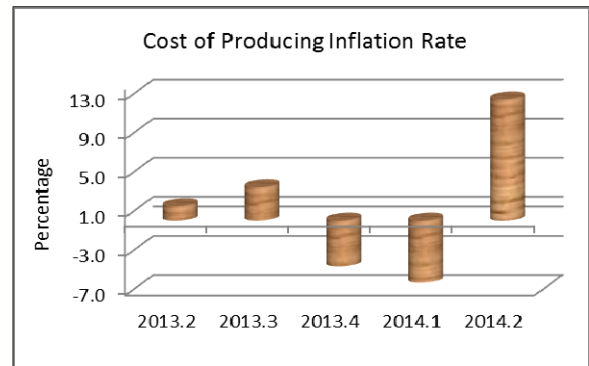


Inflation

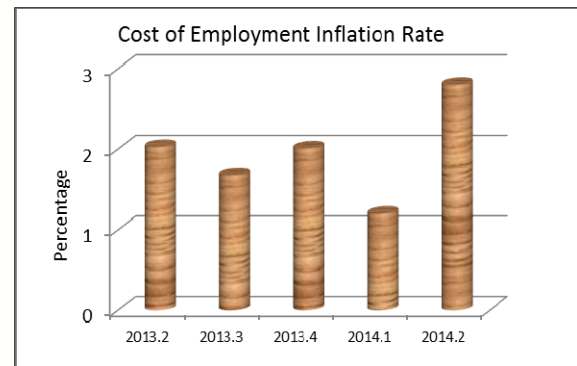
Cost of Living - In the second quarter of 2014, the Consumer Price Index for all urban areas (1982-84 = 100) inclined from 235.2 to 237.0. As a result, inflation for the cost of living accelerated at an annual rate of 3.0 percent. The cost of living inflation rate was 1.9 percent last quarter and -0.2 percent four quarters ago.



Cost of Producing - The Producer Price Index for finished consumer goods (1982 =100) increased from 206.0 to 212.4. As a result, the cost of production soared at an annual rate of 12.4 percent. The cost of producing inflation rate was -6.3 percent last quarter and 1.5 percent four quarters ago.

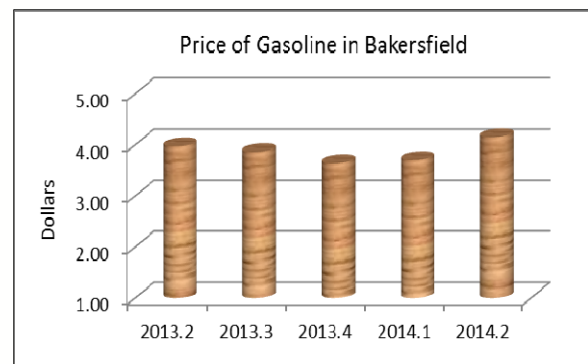


Cost of Employment - The Employment Cost Index (December 2005 = 100) for all civilian workers increased from 120.5 to 121.4. As a result, the cost of employment grew at an annual rate of 2.8 percent. The cost of employment inflation rate was 1.2 percent last quarter and 2.0 percent four quarters ago.

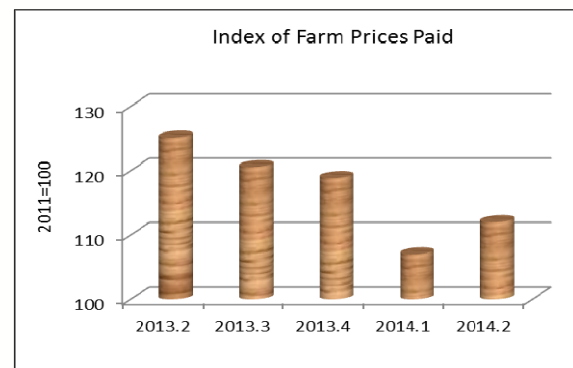
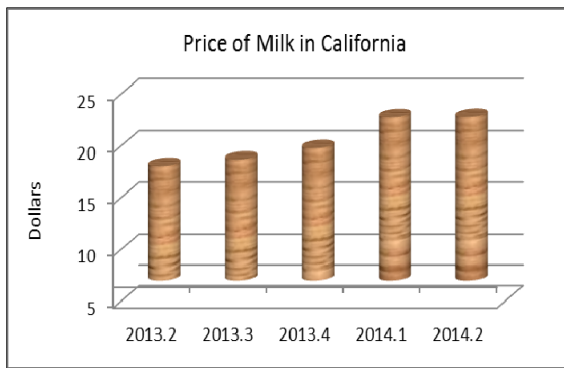


Commodity Prices

Price of Gasoline - In Bakersfield, the average retail price of regular gasoline increased 45¢ per gallon from \$3.70 to \$4.15. Compared with the fourth quarter of last year, the average gasoline price was up 34¢.

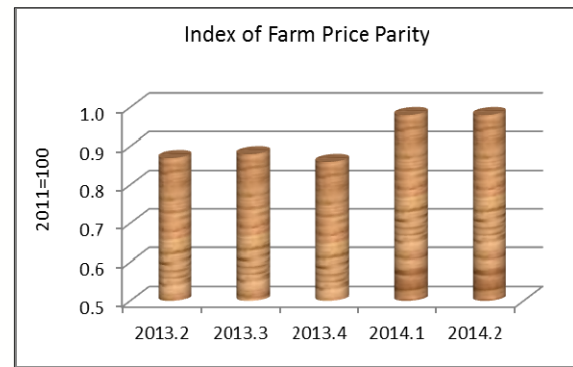
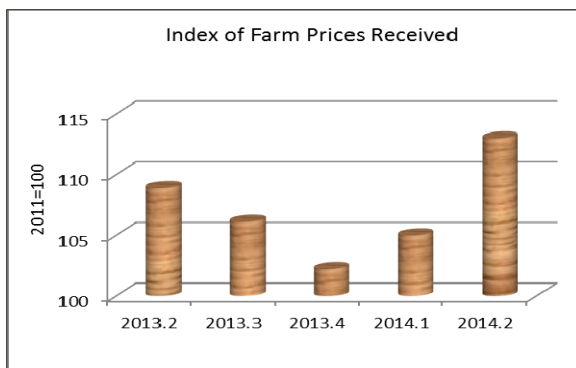


Price of Milk - The unit price of California's Class III milk increased 3¢ (or 0.1 percent) from \$22.72 to \$22.75. Likewise, milk prices have gone up \$4.71 (or 26.1 percent) since the second quarter of 2013.



Farm Prices - In the second quarter of 2014, the national Index of Prices Received by Farmers for all farm products (2011 = 100) climbed 8 points from 105 to 113. The index was 109 four quarters ago.

We measure the Index of Farm Price Parity as the ratio Index of Prices Received to the Index of Prices Paid. In the second quarter of 2014, the gap between prices paid and prices received narrowed as the Index of Farm Price Parity ascended from 96 to 98 percent. Four quarters ago, the price ratio was 87 percent.



Meanwhile, the national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents jumped 5 points to reach 112. The index was 125 four quarters ago.

Econ Brief (Continued from page 1)

For instance, visitor spending generated increases for many California counties, including:

- Los Angeles County: \$602 million in local tax revenue (up from \$563 million)
- San Diego County: \$294 million (up from \$277 million)
- Orange County: \$241 million (up from \$224 million)
- San Francisco County: \$429 million (up from \$387 million)
- Mariposa County: \$13.3 million (up from \$12.5 million)

Mariposa County has benefited from visitation to the Yosemite National Park in its midst. Here are the report's figures for visitor generated sales tax receipts for Central Valley counties:

- Butte -- \$6.5 million
- Fresno -- \$30.5 million
- Kern -- \$29.9 million
- Kings -- \$3.8 million
- Madera -- \$6.3 million
- Merced -- \$4.2 million
- Sacramento -- \$69.6 million
- San Joaquin -- \$16.1 million
- Stanislaus -- \$11.2 million
- Tulare -- \$9.8 million
- Yolo -- \$7.0 million
- Yuba -- \$2.1 million

"The California experience and culture is unmatched – it's a special place where dreams become reality. Marketing that California dream is essential to ensure the tourism industry can provide new jobs and benefit the state and local regions' bottom line," says Ms. Beteta.

BOARDWALK EMPIRE: ECONOMICS IN ACTION

ABBAS P. GRAMMY

Economics in action is well portrayed in the second season of HBO's Boardwalk Empire. The story takes place in Atlantic City during the Prohibition (1920-33), when a constitutional amendment attempted to eradicate the "evils" of alcohol consumption. Terence Winter, the screenwriter and producer, adapted the story from Nelson Johnson's *Boardwalk Empire: The Birth, High Times, and Corruption of Atlantic City*. The book portrays the life of a historical criminal kingpin, Enoch "Nucky" Johnson.



Boardwalk Empire has received widespread critical acclaim, particularly for its visual style and historical accuracy. The series has won numerous nominations and awards, including Emmy Awards for Outstanding Drama Series, Outstanding Lead Actor in a Drama Series (Steve Buscemi), Outstanding Supporting Actress in a Drama Series (Kelly MacDonald), and Outstanding Directing (Martin Scorsese).

In the TV series, Nucky Thompson (not Johnson) is a political figure that rises to prominence. He controls the economy and polity of Atlantic City during the Prohibition era. He interacts with several historical figures in both personal and political life, including mobsters, politicians, and government agents. The federal government takes an interest in his illegal activities, including bootlegging, fraud, and murder. While investigating Nucky's mob connections, government agents look at his lavish lifestyle hardly affordable by a local politician.

In episodes 20-22, Nucky applies the economic concepts of demand-supply and wage discrimination to break enemy alliance and eliminate rivals. To see economics in action in Boardwalk Empire, let me introduce some of the main characters.

Enoch Thompson (hereafter **Nucky**) is a corrupt politician and gangster. He capitalizes on the opportunities presented by Prohibition. This shrewd and charming Treasurer of Atlantic City is a consummate glad-hander and back-room dealer. Nucky maintains strict control over illegal activities of the city.

James Darmody (hereafter **Jimmy**) is a former Princeton student and combat veteran of World War I. He returns to Atlantic City a changed man. Chafing under Nucky's rule, Jimmy moves to Chicago to work alongside Al Capone, but returns at Nucky's behest. Information about Nucky's role in his mother's life makes Jimmy turn against Nucky.

Elias Thompson (hereafter **Eli**) is Nucky's younger brother and Atlantic City's Sheriff. Annoyed and envious of Nucky's fame and fortune make him form alliance with Jimmy. He persuades Jimmy to have Nucky assassinated.

Louis Kaestner (hereafter the **Commodore**) is Nucky's mentor and predecessor and Jimmy's biological father. He plots with Jimmy to depose Nucky as the "boss" of Atlantic City's underground economy.

Gillian Darmody (hereafter **Gillian**) is Jimmy's mother and an old friend of Nucky's. She was a showgirl before moving to the Commodore's household. She influences Jimmy's decision to eliminate Nucky and become the underground "boos" of Atlantic City.

Chalky White is the de facto mayor of Atlantic City's African-American community. He runs a major bootlegging operation for Nucky and is a target of the local Ku Klux Klan (KKK) movement.

Mickey Doyle is a local gangster and Chalky White's chief rival in the bootlegging business. His misguided ambition and lack of strategic thinking put him on the wrong side of Nucky's business dealings.

Al Capone is in his younger years. He learns his trade from hard-won lessons of being less hotheaded and impulsive if he wants to take advantage of countless opportunities Prohibition presented. He develops a close friendship with Jimmy in Chicago and becomes a partner of his liquor dealings in Atlantic City.

Arnold, The Big Bank Roll, Rothstein is a strategic thinker and consummate gambler as he fixed the 1919 World Series. He never makes a bet he doesn't know he'll win. He has been on both sides of deals with Nucky, always keeping his options open.

(Continued on back page)

Lucky Luciano is a cunning and ruthless gangster from Philadelphia. His youth and ambition are sometimes a dangerous combination. While partners in liquor dealings, his relationship with Jimmy is strained over a relationship with a showgirl went awry, when she turned out to be Jimmy's mother.

Meyer Lansky is a young gangster, who is a protégé of Rothstein and a partner of Luciano.

Owen Sleater is a young Irish criminal having connections with the Irish Republican Army (IRA). He works for Nucky as a bodyguard.

John McGarrigle is a puritanical Irish politician and an IRA leader. He works as a fundraiser for the IRA. He collects a sizable donation from Nucky in his visit to Atlantic City.

Jimmy, Eli, Al Capone, Lucky Luciano, and Meyer Lansky team up to eliminate Nucky. Following a failed assassination, Nucky resigns as the Atlantic City Treasurer. Upon consultation with Arnold Rothstein, he relinquishes his hold of the Atlantic City underground economy to Jimmy. Then, he plots to regain power by defeating Jimmy in a calculated and dangerous scheme. His plot has two parts: to organize a labor dispute to bring the economy of the Atlantic City to a halt, and to import high-quality whisky at reduced prices.

Labor Dispute – Nucky plots with Chalky White to organize a labor dispute at Ritz Carlton. African-American workers rise up against the restaurant manager over low wages and no wage increases. Their strike spreads to the entire African-American workforce in tourism and professional services. Violence breaks out when a group of KKK men attack and injure African-Americans on the Boardwalk. Nonetheless, the strike continues in spite of Jimmy's attempt to entice Chalky White to end it.

Import Whisky - Nucky asks Owen Sleater to arrange a meeting with John McGarrigle in Dublin. Nucky assumes John McGarrigle owes him a favor because of a sizable donation he once made to the IRA. Upon the passing of his father, Nucky takes a casket containing a dozen Thompson submachine guns to Dublin to donate to the Irish rebellion against England. Nucky offers John McGarrigle 3,000 American-made machineguns for 10,000 cases of Irish whiskey on consignment. He has an IRA militia member to demonstrate the explosive power of the Thompson machinegun. In a subsequent meeting, John McGarrigle declines Nucky's offer on the basis of an English proposal for truce. However, other IRA leaders favor continued armed struggle. They assassinate John McGarrigle and make a deal with Nucky. Upon the guns-for-whisky swap, Nucky floods the Atlantic City liquor market with Irish whisky at a cheap price of \$30 a case.

As the new "boss" of Atlantic City, Jimmy teams up with Al Capon, Lucky Luciano, Meyer Lansky, and Mickey Doyle making a deal to hijack a truckload of medical alcohol upon delivery to the buyer. The deal costs them \$60,000 each. Mickey Doyle sets up a distillation operation to make whisky. The market already saturated with Irish whisky, they find no demand for homemade whisky. Learning of Nucky's bootlegging operation, they decide to sell the whisky in their respective hometowns of Chicago, New York, and Philadelphia. Jimmy goes north to Princeton, where he attended college.

While in Princeton, Jimmy remembers that Gillian was responsible for him being expelled from college. In a weekend visit to the campus, Gillian made out with Jimmy's literature professor. Not seeing her mother's wicked character, Jimmy raged an assault on his teacher. In the dorm room, Gillian forced herself on Jimmy. While drunk, Jimmy slept with his own mother. The next morning, Jimmy quit college and joined the army to go to the war.

Jimmy's life turns tragic when an archenemy murders his wife. Subsequently, Jimmy murders the Commodore in a family dispute over Gillian's wickedness. While defeated, Jimmy tries unsuccessfully to make peace with Nucky. He promises Nucky "things will be all good again." But, the unforgiving Nucky conspires to trap Jimmy in a remote location under heavy rain. Nucky reveals his true character by shooting Jimmy on the face. Once again, Nucky regains power as the undisputed "boss" of Atlantic City.

The first season's premiere was viewed by a total of 7.1 million, the highest rated premiere for an HBO series. Also, each finale episode entertained many viewers: 3.3 million in the first season, 3.0 in the second season, 2.7 million in the third season, and 2.2 million in the fourth season. The fifth and final season of the series is scheduled to air on September 7, 2014.