

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



KERN ECONOMIC JOURNAL

2014 Fourth Quarter

Volume 16 Issue 4

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



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

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

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ECONOMY AT A GLANCE!

2014 FOURTH QUARTER

ABBAS P. GRAMMY

National Economy

The United States – the largest world’s economy of \$16.3 trillion – grew at a modest rate with falling unemployment and low inflation. The real Gross Domestic Product (GDP) increased at an annual rate of 2.6 percent in the fourth quarter from 5.0 percent rise in the third quarter. The increase in the GDP in the fourth quarter primarily reflected positive contributions from personal consumption expenditures, private inventory investment, exports, and nonresidential fixed investment. These positive contributions were partly offset by negative contributions from federal government spending and imports.

The Conference Board’s Index of Leading Economic Indicators – a measure of future economic activity – improved from 118.7 to 120.5. This improvement indicates continued economic growth over the next six to nine months. Likewise, the University of Michigan’s Consumer Sentiment Index increased from 83.0 to 89.8 as consumers judged prospects for the national economy to be the best in a decade, with half of all consumers expecting economic expansion to continue for another five years. Meanwhile, the rate of unemployment declined from 6.1 to 5.7 percent. The cost of living decreased at an annual rate of 1.2 percent; the cost of production plunged 12.2 percent; but the cost of employment rose 2.3 percent.

State Economy

In California, the unemployment rate went down to 6.9 from 7.4 percent. Among counties, San Francisco (4.0 percent), Orange (4.8 percent), Santa Clara (5.0 percent), San Luis Obispo (5.3 percent), San Diego (5.6 percent), and Sacramento (6.5 percent) had unemployment rates below the state average. In contrast, Humboldt (7.2 percent), Los Angeles (7.8 percent), Riverside (7.8 percent), San Joaquin (10.3 percent), and Fresno (10.8 percent) had unemployment rates above the state average.

The state’s civilian labor force added 64,400 members of whom 150,300 secured paying jobs and 85,900 were left jobless. While nonfarm industries hired 287,100 more workers, farming enterprises employed 67,600 fewer workers. The informal labor market accounted for the remaining 69,200 fewer workers. A wide range of industries added jobs, including wholesale and retail trade, transportation and warehousing, utilities, information,

professional and business services, health-care and social assistance, educational services, and state and local government. However, jobs were lost in mining, logging, construction, manufacturing, real estate, leisure and hospitality, and other services.

Local Economy

Household perceptions remained gloomy about employment and financial conditions of their families and relatives as the *Bakersfield Consumer Sentiment Index* stayed in the pessimistic range with a value of 93. Nonetheless, business perception remained somewhat confident about local employment and financial conditions as the *Kern County Business Outlook Index* stayed in the optimistic range with a value of 116. While increased business sales during the holiday season brightened the local outlook, sudden and rapid drop in oil prices have immersed the county’s tax revenues.

In the meantime, the loss of labor income, housing prices, and home sales contributed to a modest decline in the local economy. Personal income eroded \$10 million or at an annualized rate of 0.1 percent. Kern’s economy generated nearly \$30.7 billion in real personal income (calculated at 2012 prices).

Likewise, labor market conditions weakened with farming being the main source of job loss. Last quarter, Kern County hired 2,800 fewer workers. While nonfarm enterprises employed 5,100 more workers, the farming industry hired 9,530 fewer workers. The informal labor market accounted for the remaining 1,630 extra workers. Within the nonfarm sector, private enterprises employed 500 additional workers and public agencies offered jobs to 4,600 more laborers. Meanwhile, 570 fewer workers were unemployed, dropping the rate of unemployment from 10.4 to 10.3 percent. While below the county average, the rate of unemployment was 5.3 percent in Ridgecrest, 5.9 percent in Tehachapi, and 6.5 percent in Bakersfield.

Unexpectedly, housing market conditions deteriorated. Kern County’s median sales price for all residential units depreciated from \$192,000 to \$190,200 with sales dropping from 2,990 to 2,735. In Bakersfield, the median sales price depreciated from \$209,000 to \$204,300, while home sales dipped from 2,142 to 1,895. In the meantime, the County of Kern issued 519 permits for

(Continued on page 13)

KERN BUSINESS STILL CONFIDENT IN FOURTH QUARTER



ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

Results of the CSUB Business Outlook Survey indicate that Kern County business managers remained confident about local employment and business conditions. In the fourth quarter (October through December) of 2014, the *Business Outlook Index* stayed in the optimistic range with a value of 116. However, this degree of optimism weakened 6 points relative to the previous quarter and 3 points relative to four quarters ago.

Comparing with the previous quarter survey, we can see signs of fading optimism. The percentage of positive responses dropped from 33 to 31 and the percentage of neutral responses declined from 57 to 53. Meanwhile, the percentage of negative responses ascended from 11 to 16.

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 110 from 117 and the *Future Conditions Index* declined to 122 from 126. These results indicate that business managers continued cautious optimism about local employment and business conditions last and this quarter.

Employment Outlook:

Fifty-two percent of interviewees reported that the number of jobs in their companies stayed constant this quarter. However, 25 percent said more jobs were available in their companies and 23 percent reported reduced employment.

Likewise, 65 percent perceived that the number of jobs would stay constant next quarter, whereas 25 percent expected their companies to hire more workers. The remaining 10 percent anticipated a smaller workforce.

Financial Outlook:

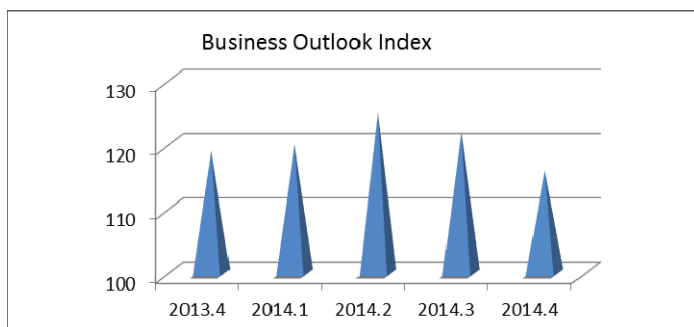
Forty-five percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter, while 45 percent indicated increased sales and profits and 10 percent stated reduced sales and profits.

Similarly, 49 percent expected financial conditions of their companies would remain constant next quarter. However, 45 percent anticipated increased sales and profits and 6 percent predicted reduced sales and profits.

Industry Outlook:

Sixty percent of survey respondents perceived that employment and general business conditions of their industries remained the same as the previous quarter, while 23 percent felt these conditions improved and 17 percent stated crumbling business conditions.

Sixty-one percent anticipated that the employment and general business conditions of their industries would stay unchanged next quarter. Yet, 33 percent expected progress and 6 percent felt otherwise.



Kern County Business Outlook			
	Current Quarter	Previous Quarter	Four Quarters Ago
Business Outlook Index	116	122	119
Current Conditions Index	110	117	116
Future Conditions Index	122	126	122

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BAKERSFIELD CONSUMER SENTIMENT SLIPS SLIGHTLY IN FOURTH QUARTER

MARK EVANS

ECONOMICS PROFESSOR AND CHAIR, CSUB



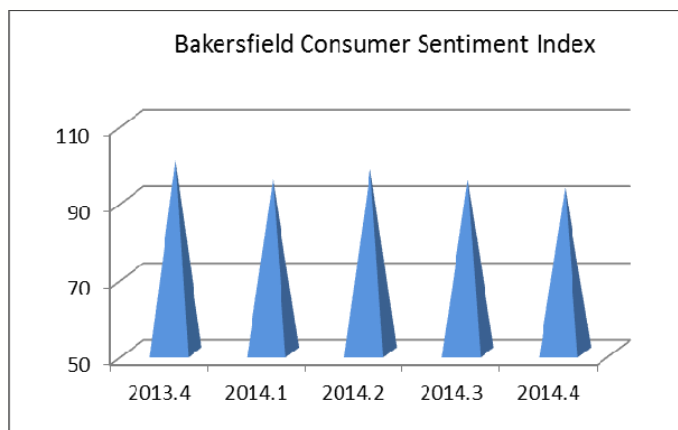
The Bakersfield Consumer Sentiment Index, which hovered between 95 and 100 for the past seven quarters slipped to 93 in the fourth quarter of 2014. While the slippage was minor -- from 95 in the third quarter -- there has not been a sustained improvement in local consumer sentiment for two years. Nationally, the Thomson Reuters/University of Michigan consumer sentiment index increased from 84 in the third quarter to a year-end value of 90, its highest quarterly reading in seven years. While the two indexes almost always follow a similar trend, we are in one of those rare periods where this is not the case. Bakersfield consumer sentiment has been more bullish three-fourths of the time since CSUB began compiling it in 1999, while national sentiment has been stronger only one-third of the time during this period. Both the local and national indexes are based on random telephone surveys. However, their magnitudes cannot be directly compared since they are constructed differently.

The Bakersfield index is disaggregated into sub-indexes measuring recent conditions and expectations over the next 12 months. The composite index decreased, because an improvement in consumer expectations from 86 to 91 was offset by a larger decline (from 105 to 94) in current conditions of households. The University of Michigan's sub-index measuring current conditions was much stronger than the sub-index measuring expectations (102 versus 82), substantiating reports of a strengthening national economy.

The fourth quarter's eleven-point decrease from 105 to 94 in the sub-index measuring current conditions of households followed an eight-point increase in the third quarter. The percent of households reporting their financial situation improved decreased from 22 percent in the third quarter to 20 percent, while the percent indicating they were worse off increased from 19 to 25 percent. Respondents also perceived some deterioration in the financial condition of local acquaintances. As one would expect, this resulted in a reining in of discretionary expenditures on items such as weekend outings, dining out, and entertainment. The percent of respondents reporting that they spent more than usual on these items decreased from 24 to 16 percent, while the percent reporting they spent less than usual increased from 18 to 23 percent.

However, the percentage of households reporting they recently made a "big ticket purchase" (furniture, appliances, computing and electronics, car, home improvement) more than doubled from six to 13 percent of the sample. Two percent of the households reported purchasing furniture, two percent purchased an appliance, five percent purchased computers and other electronic products, two percent purchased a car, and two percent invested in home improvements.

As already mentioned, the sub-index measuring expectations for the coming year increased five points (from 86 to 91). While respondents indicated their acquaintances appeared to be slightly less optimistic about the coming year than in the previous quarter, the percent of households expecting their own financial situation to improve increased from 20 to 28 percent. This more than offset a slight increase from 20 to 22 percent in those expecting their financial situation to worsen. Despite some optimism about their personal situation moving forward, the percent of respondents feeling this was a safe time to use savings or incur debt to purchase a "big ticket" item decreased from 19 to 10 percent. Perhaps this simply reflects the near-doubling of households who already made a recent major purchase, as there also was a ten-point drop (from 52 to 42 percent) in respondents thinking this was a risky time to make an expensive purchase.



(Continued on page 5)

Table 1: Index Values			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	93	95	100
Sub-index: Current Conditions	94	105	97
Sub-index: Future Expectations	91	86	102

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)	16%	61%	23%
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	20%	55%	25%
How your acquaintances in Kern County are doing financially compared to one year ago.	17%	61%	22%

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	28%	50%	22%
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	27%	46%	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?	10%	48%	42%

Kern Business (Continued from page 3)

Economic Outlook:

When asked about Kern County’s economy, 49 percent of interviewees perceived no change this quarter. Nevertheless, 23 percent felt conditions improved and 28 percent said conditions worsened.

Likewise, 45 percent felt that economic conditions would remain unchanged next quarter. However, 30 percent anticipated the economy would get better and 25 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:

- Increased business sale
- Better technology
- Falling fuel prices

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

- Continued drought
- Sudden and rapid drop in oil prices
- Difficulty of doing business internationally

TRACKING KERN'S ECONOMY¹

2014 FOURTH QUARTER

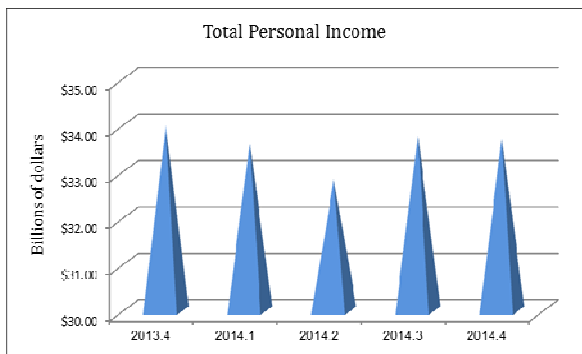
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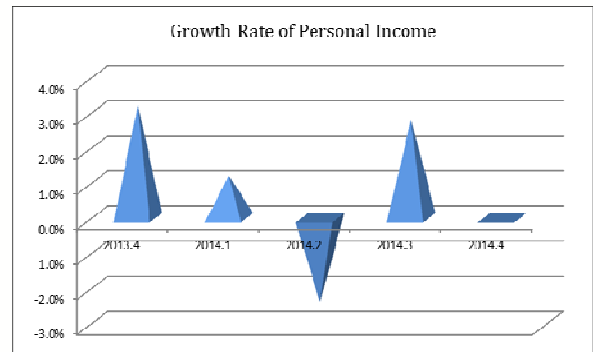
Economy

Personal Income - To be consistent with data on local area personal income published by the United States Bureau of Economic Analysis, we revised our estimation for Kern County's personal income. We calculated personal income as the sum of wages and salaries, self-employment income, rental income, property income, business profit, dividends, interest income, rental income, and personal and business transfer payments. Next, we upgraded our base period for adjustment of inflation from 1996 to 2012.

In our estimation, Kern County's personal income totaled \$30.74 billion in the fourth quarter of 2014. We found this amount to be \$10 million lower than that of the previous quarter. The decrease in personal income in the fourth quarter primarily reflected positive contributions from business profit and interest income. However, these positive contributions were fully offset by negative contributions from labor income, property income, rental income, and transfer payments. Four quarters ago, personal income was almost \$31 billion.



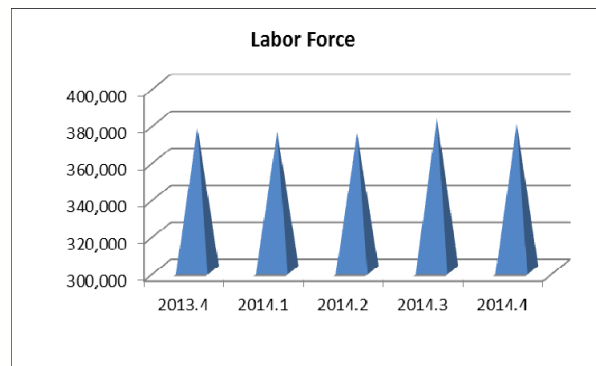
Growth of Personal Income - Kern's economy remained nearly stable with such a small decline in personal income. The loss of \$10 million in personal income is translated to an annual growth rate of -0.1 percent. Nevertheless, Kern's economy expanded 2.8 percent in the previous quarter and 3.2 percent 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.

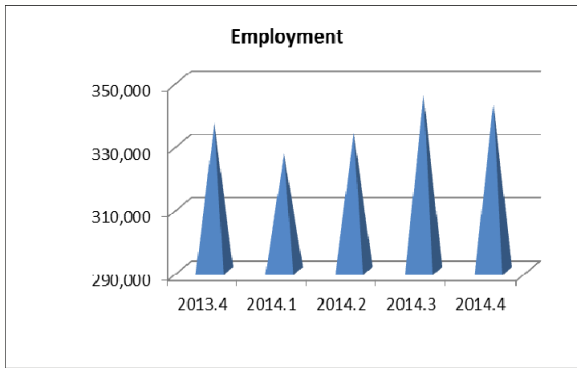
Labor Force - The civilian labor force shrunk by 3,370 members from 382,160 in the third quarter to 378,790 in the fourth quarter of 2014. However, 1,690 more workers were available for work this quarter relative to the fourth quarter of last year.



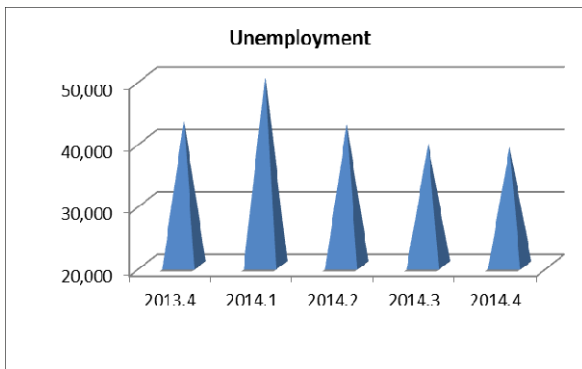
Employment - In the fourth quarter of 2014, Kern County hired 2,800 fewer workers as total employment declined from 345,480 to 342,680. Nevertheless, the county employed 5,930 more workers this quarter than four quarters ago.

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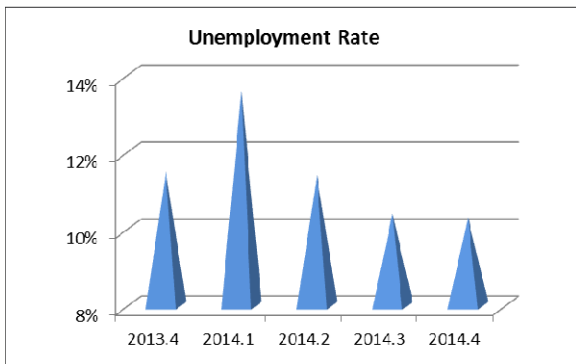
¹Source - Online databases: labormarketinfo.edd.ca.gov, bakersfieldgasprices.com, dqnews.com, economagic.com, bea.gov, bls.com, gpoaccess.gov, dairy.nu, msn.com, census.gov, kerndata.com, and bry.com



Unemployment - In the meantime, 570 fewer workers were unemployed as the number of jobless workers decreased from 39,590 to 39,020. Likewise, 4,240 fewer workers were unemployed this quarter than the fourth quarter of last year.



Unemployment Rate - Kern County’s unemployment rate dropped one-tenth of one percent to reach 10.3 percent. The county’s unemployment rate was 11.5 percent four quarters ago.

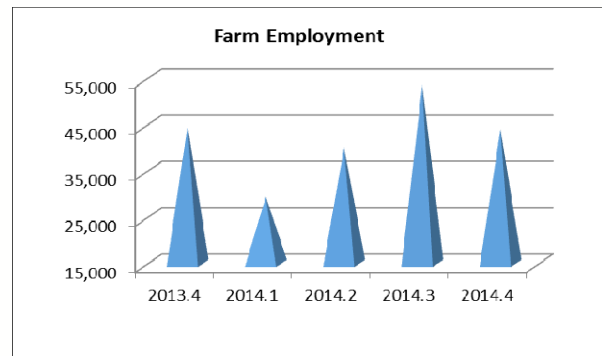


The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate varied between 5.3 percent in Ridgecrest and 26.1 percent in Arvin. In Bakersfield, the rate of unemployment was 6.5 percent.

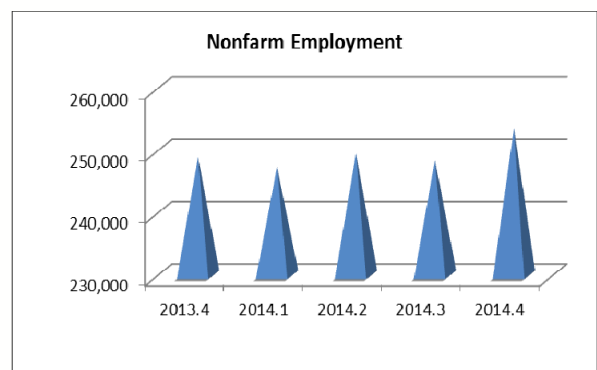
Unemployment Rate of Cities			
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Ridgecrest	5.3	Oildale	10.0
Inyokern	5.6	Mojave	10.6
Tehachapi	5.9	Lake Isabella	11.3
Bakersfield	6.5	Shafter	17.2
California City	7.4	Lamont	17.3
Rosamond	7.8	Wasco	18.0
Edwards	7.8	McFarland	20.3
Frazier Park	8.2	Delano	25.1
Taft	9.3	Arvin	26.1

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

Farm Employment - In the fourth quarter of 2014, Kern County hired 9,530 fewer farm workers. As a result, farm employment decreased from 53,480 to 43,980. Similarly, the farming industry hired 800 fewer workers this quarter than four quarters ago.

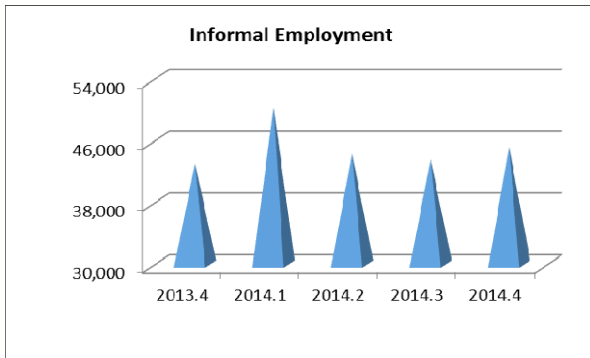


Nonfarm Employment - Local nonfarm industries employed 5,100 more workers this quarter. Hence, the number of nonfarm workers increased from 248,470 to 253,570. Likewise, nonfarm industries hired 4,600 more workers this quarter than four quarters ago.

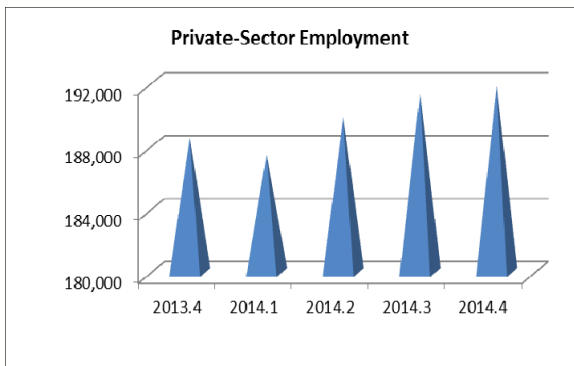


Many nonfarm industries added jobs: construction, retail trade, wholesale trade, transportation and warehousing, information, health-care and social assistance, finance and insurance, educational services, leisure and hospitality, federal government, state government, and local public education. However, jobs were cut in oil and gas extraction, manufacturing, professional and business services, and city government and special districts.

Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and workers employed outside their county of residence. In the fourth quarter of 2014, the number of informal workers increased by 1,630 from 43,530 to 45,160. Likewise, the informal labor sector hired 2,130 more workers this quarter relative to the fourth quarter of last year.

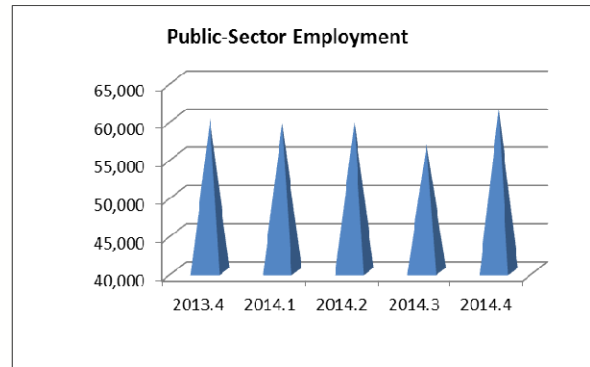


Private-Sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the fourth quarter of 2014, private companies hired 500 more workers as their employment increased from 191,370 to 191,870. Likewise, the private sector employed 3,270 more workers this quarter than four quarters ago.



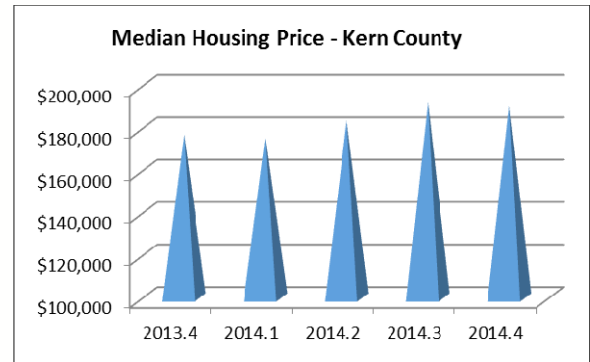
Public-Sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the fourth quarter of 2014, government agencies hired 4,600 more workers as their employment increased from 56,470 to 61,340.

Similarly, the public sector employed 1,340 more workers this quarter than four quarters ago.

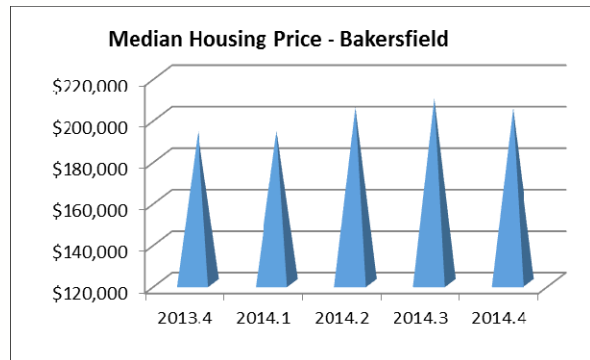


Housing Market

Housing Price - In the fourth quarter of 2014, Kern County's housing prices dropped unexpectedly. The median sales price for all residential units depreciated \$1,800 (or 0.9 percent) from \$192,000 to \$190,200. Nonetheless, the county's median sales price appreciated \$13,400 (or 7.6 percent) between the fourth quarter of 2013 and the fourth quarter of 2014.



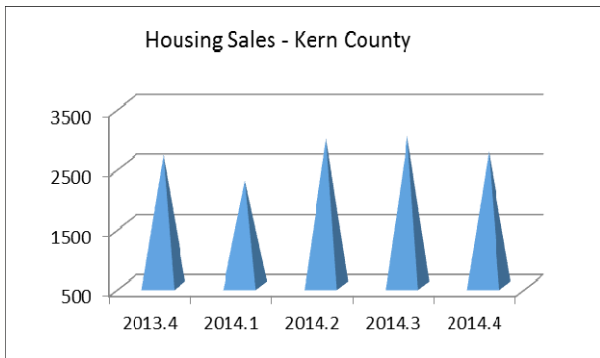
In Bakersfield, the median housing price depreciated \$4,700 (or 2.2 percent) from \$209,000 in the third quarter to \$204,300 in the fourth quarter. Conversely, the city's median sales price has appreciated \$10,900 (or 5.6 percent) since the fourth quarter of 2013.



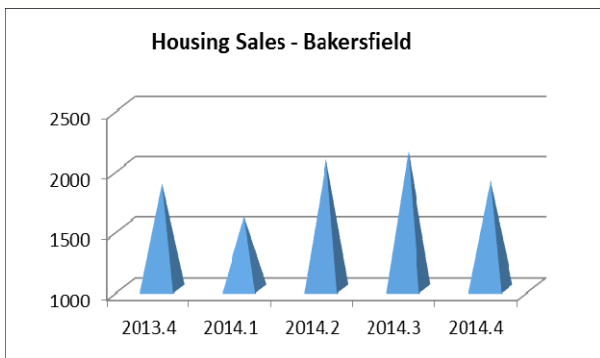
Housing price varied across the county. Within previous four quarters (2013 fourth quarter to 2014 fourth quarter), the median sales price appreciated in all major cities of Kern County. In dollar value, Tehachapi had the largest appreciation of \$30,200. Meanwhile, California City recorded the largest appreciation rate of 22.2 percent.

Location	Median Price 2014.4	Median Price 2013.4	Price Change 2013.4 to 2014.4	Price Change 2013.4-2014.4
Kern County	\$190,200	\$176,800	\$13,400	7.6%
Bakersfield	\$204,300	\$193,400	\$10,900	5.6%
California City	\$82,500	\$67,500	\$15,000	22.2%
Delano	\$160,800	\$138,100	\$22,700	16.4%
Ridgecrest	\$145,500	\$134,300	\$11,200	8.3%
Rosamond	\$171,300	\$155,800	\$15,500	9.9%
Taft	\$94,600	\$80,200	\$14,400	18.0%
Tehachapi	\$221,200	\$191,000	\$30,200	15.8%

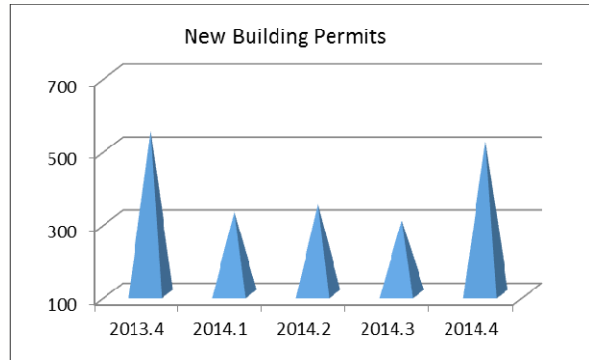
Housing Sales - In the fourth quarter of 2014, price depreciation was accompanied by sales decline. In Kern County, 255 fewer homes were sold as total sales dropped from 2,990 to 2,735. Compared to four quarters ago, however, 56 more units were sold.



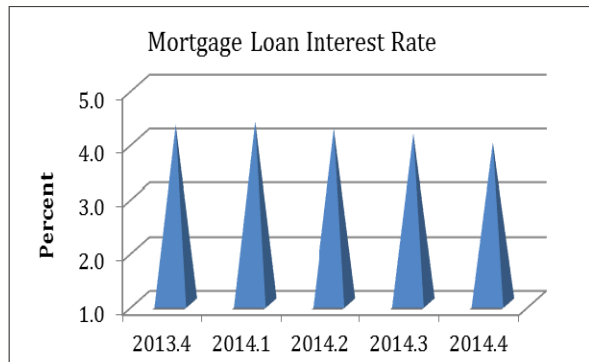
In Bakersfield, sales of residential units plunged as 247 fewer homes were sold. Total sales dropped from 2,142 to 1,895. Nevertheless, sales were up by 19 units this quarter relative to the fourth quarter of last year.



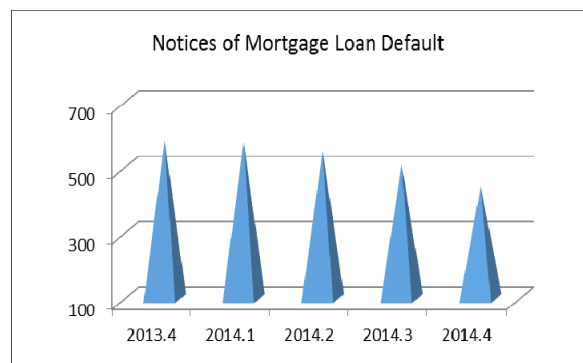
New Building Permits - In the fourth quarter of 2014, Kern County issued 519 permits for construction of new privately-owned dwelling units. The county issued 302 new building permits last quarter and 547 four quarters ago.



Mortgage Interest Rate - In the fourth quarter of 2014, the interest rate on thirty-year conventional mortgage loans dropped from 4.14 to 3.97 percent. Four quarters ago, the mortgage loan interest rate was 4.30 percent.

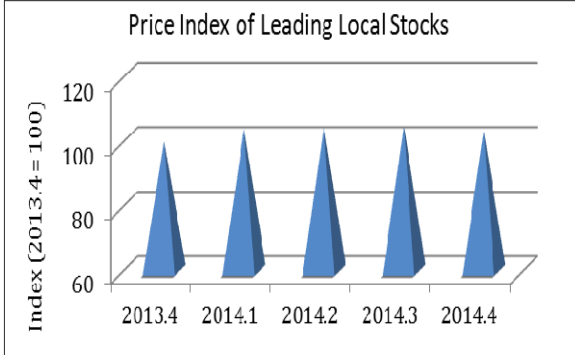


Housing Foreclosure Activity - Kern County's foreclosure activity continued to slow in the fourth quarter of 2014. The number of homeowners receiving notices of loan default from their mortgage bankers declined from 508 to 442. Similarly, the number of default notices has gone down by 142 since the fourth quarter of last year.

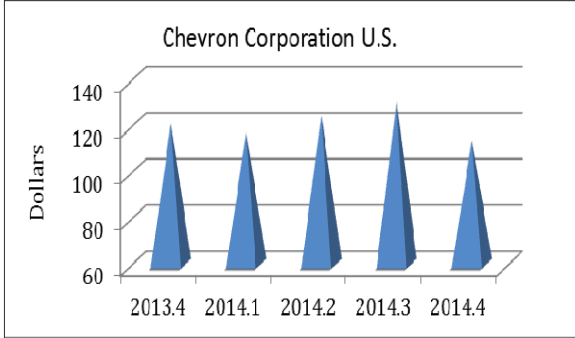


Stock Market

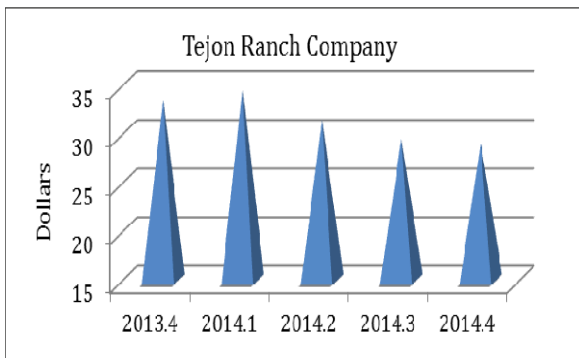
In the fourth quarter of 2014, the composite price index (2013.4 = 100) of the five publically traded companies doing business in Kern County decreased 1.5 percentage points from 104.7 to 103.2. However, the index was 3.2 percentage points higher than that of four quarters ago. Average “close” prices were measured for five local market-movers: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.



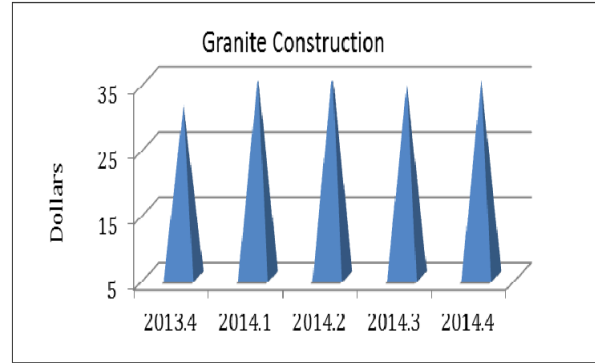
Chevron Corporation US - CVX lost \$17.65 (or 13.5 percent) per share as its price decreased from \$131.19 to \$113.54. Relative to the fourth quarter of 2013, CVX was down \$7.38 (or 6.0 percent).



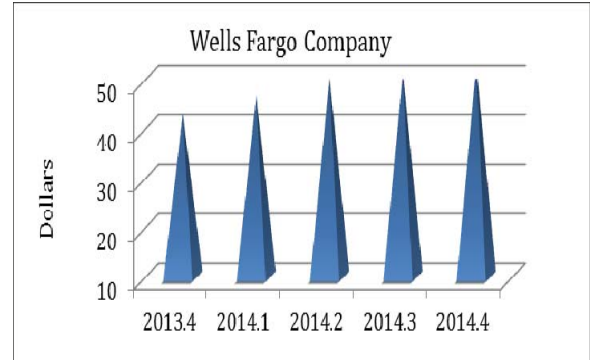
Tejon Ranch Company - TRC lost 39¢ (or 1.3 percent) per share as its stock price dropped from \$29.45 to \$29.06. Likewise, TRC was down \$4.45 (or 13.3 percent) relative to the fourth quarter of 2013.



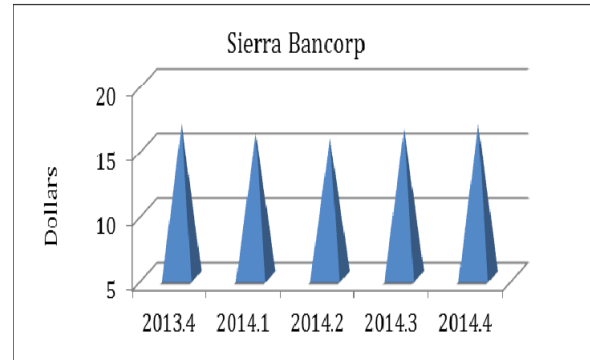
Granite Construction - GVA gained 78¢ (or 2.3 percent) per share as its stock price edged up from \$34.47 to \$35.25. Likewise, GVA has gone up \$3.92 (or 12.5 percent) since the fourth quarter of 2013.



Wells Fargo Company - WFC made \$1.46 (or 2.8 percent) per share as its stock price ascended from \$51.44 to \$52.90. Relative to one year ago, WFC was up \$9.85 (or 22.9 percent).



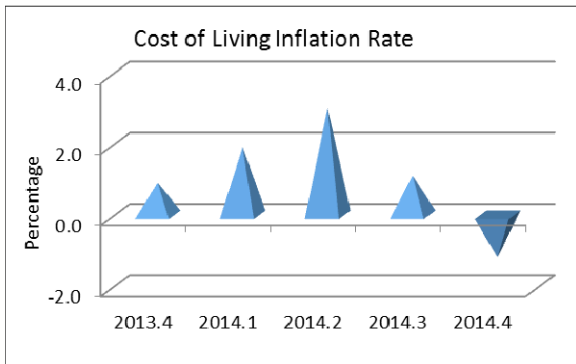
Sierra Bancorp - BSRR gained 37¢ (or 2.3 percent) per share as its price inclined from \$16.40 to \$16.77. Nevertheless, BSRR has gone down 3¢ (or 0.2 percent) since the fourth quarter of 2013.



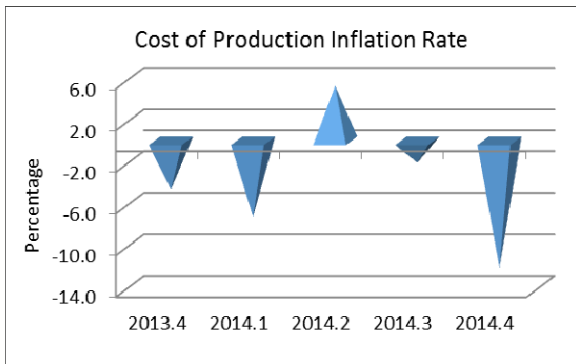
Inflation

Cost of Living – In the fourth quarter of 2014, the Consumer Price Index for all urban areas (1982-84 = 100) declined from 237.7 to 236.9. As a result, inflation for the cost of living decelerated at an annual rate of 1.2

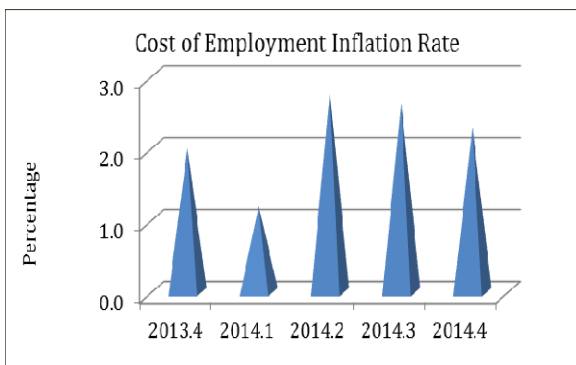
percent. The cost of living inflation rate was 1.1 percent last quarter and 1.0 percent four quarters ago.



Cost of Production - The Producer Price Index for all commodities (1982 =100) decreased from 207.1 to 200.8. As a result, the cost of production decelerated at an annual rate of 12.2 percent. The cost of production inflation rate was -2.1 percent last quarter and -7.3 percent four quarters ago.

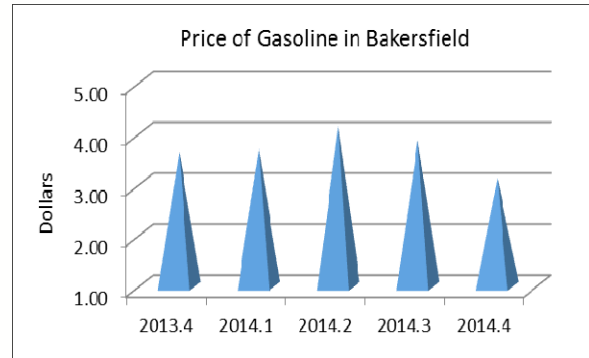


Cost of Employment - The Employment Cost Index (December 2005 = 100) for all civilian workers increased from 122.2 to 122.9. As a result, the cost of employment grew at an annual rate of 2.3 percent. The cost of employment inflation rate was 2.6 percent last quarter and 2.0 percent four quarters ago.

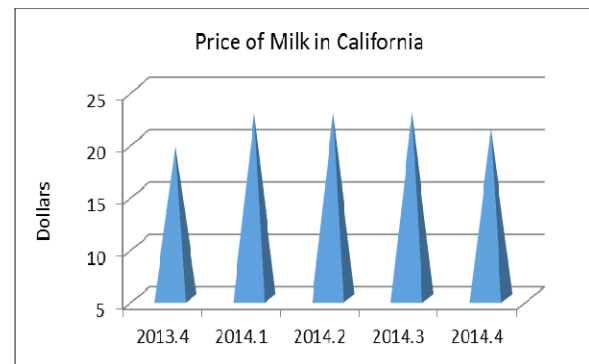


Commodity Prices

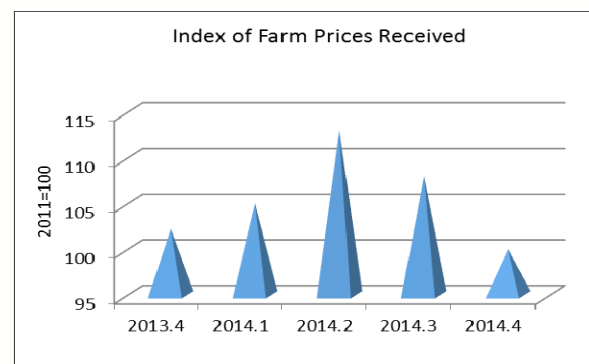
Price of Gasoline - In Bakersfield metropolitan area, the average retail price of regular gasoline dropped 75¢ per gallon from \$3.88 to \$3.13. Compared with the fourth quarter of last year, the average gasoline price was down 51¢.



Price of Milk - The unit price of California’s Class III milk dropped \$1.63 (or 7.1 percent) from \$22.82 to \$21.19. Noticeably, the price plunged \$1.88 in November and \$4.12 in December. Nevertheless, the price was up \$1.42 (or 7.2 percent) relative to the fourth quarter of last year.



Farm Prices - In the fourth quarter of 2014, the national Index of Prices Received by Farmers for all farm products (2011 = 100) dropped 8 points from 108 to 100. The index was 102 four quarters ago.



The Economics of Law

England vs. France - A Draw

Abbas Grammy, CSUB

There are several factors that cause economic prosperity including productivity growth, technological advancement, educational attainment, and institutional support. In particular, a critical aspect of institutional support is a legal system that safeguards property rights and contract laws in order to entice people to engage in trade for mutual gain. The question raised here is which legal system is more supportive of economic progress: the English common law or the French civil law.

The legal systems of the world are generally based on one of two foundations: civil law and common law. In addition to these foundations, the legal system of each country is shaped by its unique history and tradition.

Civil law is the most widespread legal system around the world. The central source of law recognized as authoritative is codifications in a constitution or statute passed by the legislature. Civil laws are interpreted rather than developed or made by judges. Only legislative enactments rather than legal precedents are considered legally binding.



Common law and equity are systems of law, whose sources are the decisions made by judges. The relationships between statutes and judicial decisions can be complex. In some jurisdictions such statutes may overrule judicial decisions or codify the topic covered by several contradictory or ambiguous decisions. In some jurisdictions, judges may decide whether the jurisdiction's constitution allowed a particular statute or statutory provision to be made or what meaning is contained within the statutory provisions.

In a path-breaking study, Paul Mahoney of University of Virginia finds that legal systems based on the English common law are more likely to yield predictable changes in the structure of property and contract laws. He discovers that the common law system is more efficient than the civil law system. The English common law favors limited government intervention and emphasizes the importance of the judiciary in constraining the power of executive and legislative branches of the government. On the contrary, the French civil law favors the creation of a strong centralized government in which executive and legislative branches have the power to grant preferential treatment to special interests. Challenging Mahoney's assertion, Garoupa and Liguierre argue that the legal origins literature cannot easily be based on the efficiency hypothesis of the English common law and find no consistent theory to explain the alleged inferiority of the French civil law.

Civil law is now practiced in at least eighty countries, including France, Belgium, the Netherlands, Italy, Portugal, Spain, and former colonies of these countries; Germany, Norway, Denmark, Sweden, Luxembourg, Russia, East European countries, Austria, Switzerland, former Yugoslav republics, Greece, Turkey, Japan, South Korea, China, and Taiwan.

Common law is currently in practice in more than thirty countries such as the United Kingdom, Ireland, Australia, New Zealand, India, Pakistan, South Africa, Canada, Hong Kong, and the United States.

To test Mahoney's hypothesis, I took a sample of 75 civil law countries and 25 common law nations. Then, I gathered data on the Per Capita Gross Domestic Product (in purchasing power parity) of each country in 2011. Next, I calculated the mean and standard deviation of this indicator for common law countries and civil law nations. Then, I performed hypothesis testing for the difference between means for these two samples. The null hypothesis is that the mean Per Capita GDP of common law countries is less than or equal to that of civil law nations. The alternative hypothesis is that the mean Per Capita GDP of common law countries is greater than that of civil law nations. The test result helps reject the null hypothesis at the 10 percent level of significance. Although marginally significant, the mean Per Capita GDP of common law countries proves to be greater than the Per Capita GDP of civil law nations.

Mean Per Capita Gross Domestic Product		
Countries	Common Law	Civil Law
Mean:		
All	\$23,530	\$17,100
High-Income	\$40,360	\$41,000
Standard Deviation:		
All	\$17,600	\$15,200
High-Income	\$9,900	\$12,900

In a follow up analysis, I consider sub-samples of high-income countries with Per Capita GDP of at least \$28,000 from each group of nations. The reason for the exclusion of middle- and low-income countries is that they, by and large, have mixed legal systems. For example, Nigeria’s legal system is a mixture of the English common law and the Islamic sharia law or Vietnam’s legal system is a combination of the French civil law and the Communist legal theory. For sub-samples of high-income countries, the test result shows no significant difference between the means. Hence, I fail to reject the null hypothesis that the mean Per Capita GDP of common law countries is equal to that of civil law nations.

With such inconclusive statistical evidence, it is hard to make a case for the economic superiority of the English common law over the French civil law. In high-income countries with democratic and stable political institutions and history of individual freedom and civil liberty, productivity enhancement and technological advancement seem to be the main determinants of economic prosperity.

Source:

Garoupa, N. and Liguierre, C. G. (2011), “The Syndrome of the Efficiency of the Common Law,” *International Law Journal*, 29, 287-334

Mahoney, P. (2001), “The Common Law and Economic Growth: Hayek Might Be Right,” 30 *Journal of Legal Studies*, 503

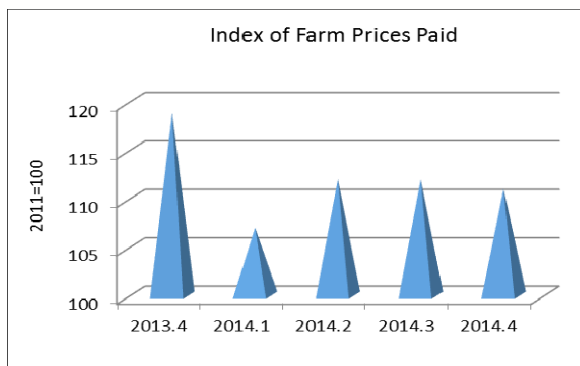
Miller, R. L. and D. K. Benjamin (2012), *The Economics of Macro Issues*, 5th edition, Pearson

The World Factbook, Central Intelligent Agency, <https://www.cia.gov/library/publications/the-world-factbook/>

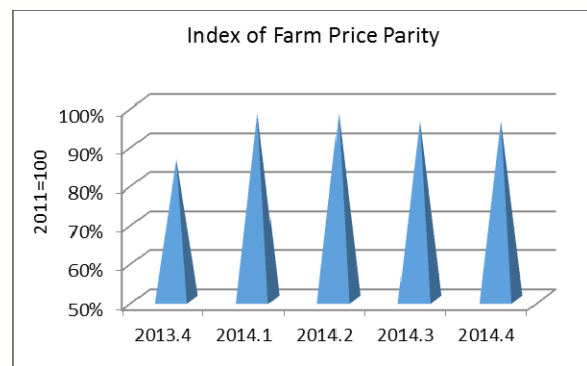
Wikipedia, “List of Country Legal Systems,” http://en.wikipedia.org/wiki/List_of_country_legal_systems

Tracking (Continued from page 11)

Meanwhile, the national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents declined 1 point to reach 111. The index was 119 four quarters ago.



We measure the Index of Farm Price Parity as the ratio Index of Prices Received to the Index of Prices Paid. In the fourth quarter of 2014, the gap between prices paid and prices received widened as the Index of Farm Price Parity remained constant at 96 percent. Four quarters ago, the price ratio was 86 percent.



At a Glance (Continued from page 1)

construction of new privately-owned dwelling units, 217 more than the previous quarter. Housing foreclosure activity slowed with mortgage bankers issuing 66 fewer notices of loan default for a total of 442.

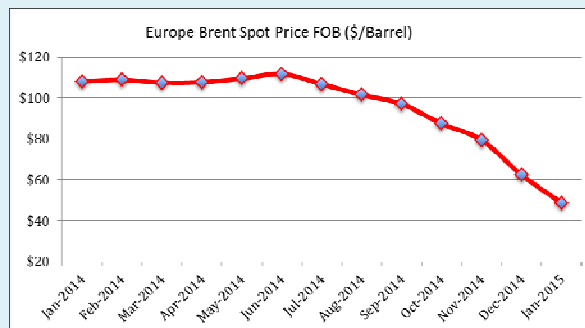
In Bakersfield metropolitan area, the average retail price of regular unleaded gasoline plunged to \$3.13 from \$3.88 per gallon. The unit price of California’s Class III milk decreased \$1.63 to reach \$21.19. The index of prices

farmers received for their outputs dropped 8 points to reach 100, while the index of prices farmers paid for their inputs declined 1 point at 111. However, the gap between output prices farmers received and input prices farmers paid remained unchanged at 96 percent. Of the top five locally traded stocks, the price per share dropped for Chevron Corporation and Tejon Ranch Company. However, the price per share inclined for Wells Fargo Company, Sierra Bancorp, and Granite Construction.

Reasons for Falling Oil Prices Abbas P. Grammy, CSUB

As oil prices continue to plunge, I try to find reasons for such a sudden and rapid decline. Looking at data, I find that between December 2013 and December 2014, the Brent spot price per barrel dropped \$48.42 (or 44 percent) from \$110.76 to \$62.34. I also notice that the price fallen to \$48.73 in January 2015, is unlikely to stop any time soon.

Even though crude benchmarks like the Brent keep dropping, the cost of production continues to be high in the United States. Morgan Stanley analysts recently estimated that the onshore Middle East oil sites are much cheaper to tap than North American shale. Accordingly, the average Brent-equivalent breakeven per barrel price is \$65 for North American shale, but only \$27 for Middle Eastern onshore. This price difference is a huge advantage, especially as fluctuating prices often make production unprofitable for high cost producers.



So, what are some of the key drivers that have created this paradox?

The oil price fall can be explained by both supply and demand factors in addition to a geopolitical issue. On the supply side, production is at its highest level in thirty years in the United States due to technological advancement in oil extraction. Also, production has risen in Russia despite imposed sanctions for Ukraine crisis and in Libya and Iraq despite on-going armed struggle. Ironically, the OPEC led by Saudi Arabia has decided not to cut production in light of falling prices. On the contrary, the demand has weakened due to sluggish economic growth in China, Brazil, and Europe and the energy conservation trend in automobile production in major producing countries. Beyond slow economic growth and currency depreciation, a number of Asian countries - namely India, Indonesia, Malaysia, Thailand, and Vietnam - have begun cutting energy subsidies, resulting in higher fuel costs despite dropping global oil prices.

Reputedly, Saudi Arabia and Kuwait have been engaged in an oil price war to regain their market shares lost to Russia and Iran. In addition, the Saudi strategy is to flood the international market to harm the economies of Russia and Iran. The Saudis would want to harm Russia for its support of rebels in Ukraine and for backing of embattled Syrian President Bashar al-Assad. In addition for Iran's support of Syria, the Saudis would also want to deprive the Iranian government from much needed oil revenues to pay for its ambitious nuclear build-up. While Saudi Arabia can afford selling oil at a much cheaper price, both Russia and Iran need the oil price to be above \$100 a barrel to breakeven. So, it would seem unlikely for the on-going oil price reduction to end any time soon.

Sources:

Maloof, F. Michael, "Saudi Arabia in oil-price war with Iran, Russia," WND Weekly, 14 January 2015, <http://www.wnd.com/2015/01/saudi-arabia-in-oil-price-war-with-iran-russia/>

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Rao, Sam, "The Middle East Has A Huge Advantage In The Global Oil Market," *Business Insider*, 13 May 2014, <http://www.businessinsider.com/crude-oil-cost-of-production>