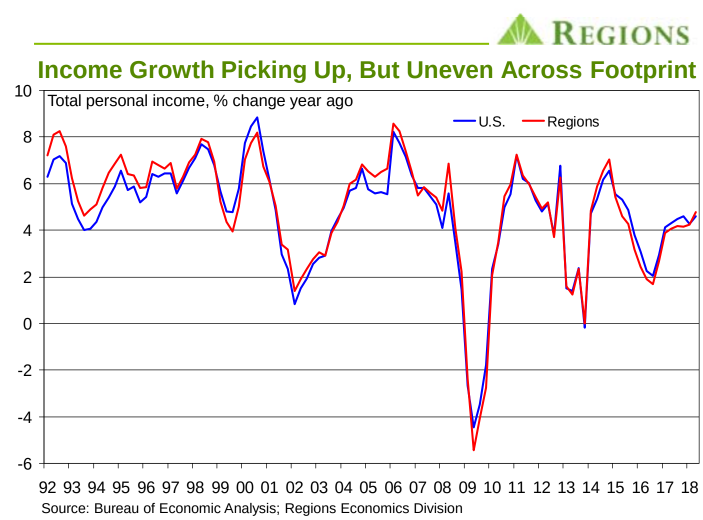
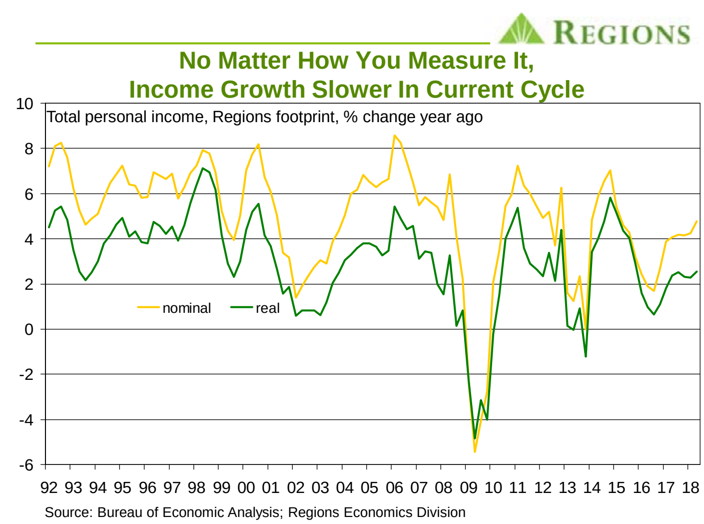
## Q2 2018 State Personal Income: Regions Footprint

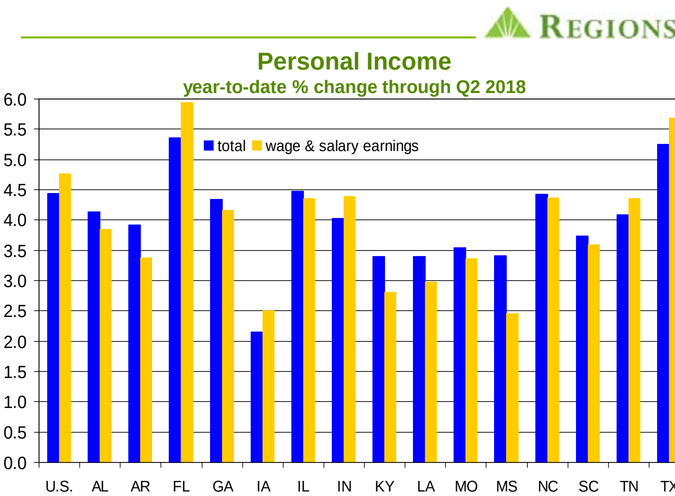
The Bureau of Economic Analysis (BEA) has released estimates of state-level personal income for Q2 2018, and the data as of Q2 incorporate comprehensive revisions to the historical data done in conjunction with the comprehensive revisions to the entire National Income and Product Accounts (NIPA) catalog. For the most part, the revisions do not alter patterns in income growth across geographies, i.e., the relative ranking of income growth across states was left largely intact after the revisions. The Regions footprint as a whole saw a year-on-year increase in total personal income of 4.8 percent in Q2 2018, compared to a 4.6 percent increase for the U.S. as a whole. On a year-to-date basis through Q2, total personal income in the Regions footprint was up 4.5 compared to the first half of 2017, just ahead of the 4.4 percent year-to-date growth for the U.S. as a whole. Growth in wage and salary earnings and in investment income (or, income from dividends, interest, and rents) were the main drivers of growth in overall personal income for the Regions footprint and for the U.S. as a whole. On a year-to-date basis through Q2 2018, Florida (5.4 percent), Texas (5.3 percent), Illinois (4.5 percent), Georgia and North Carolina (each 4.4 percent) posted the fastest growth in total personal income of the in-footprint states, with Iowa (2.2 percent), Kentucky (3.4 percent), and Louisiana (3.4 percent) seeing the slowest growth.

Before going any further, we'll note that one limitation of the state-level personal income data is the lack of a timely read on disposable, or, after-tax, personal income. This is relevant at present because it is growth in disposable personal income that best shows the effects of the lower individual income tax rates incorporated in the 2017 tax bill. In other words, total personal income is a before-tax measure which does not account for tax payments. Given that lower personal income tax rates took effect in Q1 2018, it follows that growth in disposable personal income in 2018 should be faster than growth in total personal income, which has indeed been the case for the U.S. as a whole. To be sure, given that some individual deductions were either limited or eliminated altogether in the 2017 tax bill, increased tax payments at the time individual tax returns are filed could take a bite out of disposable personal income, but any such effects won't be visible on the state level until the annual 2018 data are released, making it difficult to assess how the 2017 tax bill impacts growth in disposable personal income on a state-by-state basis in any kind of a timely manner.



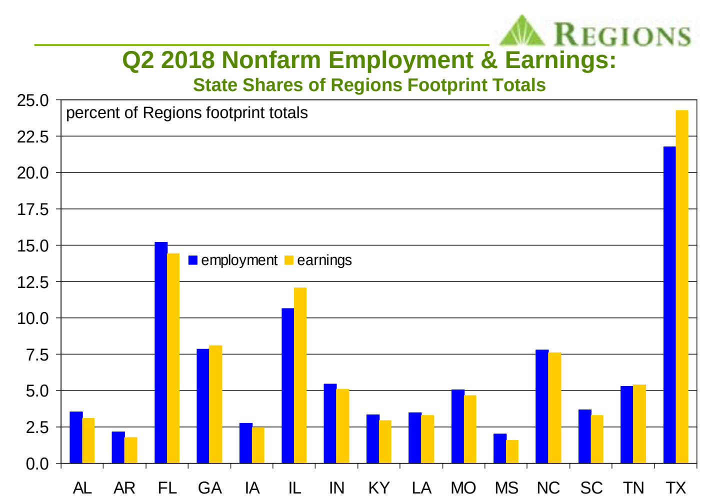




As seen in the above charts, income growth during the current cycle is lagging growth seen during past cycles, both nationally and within the Regions footprint. There are several factors that can help account for this. One main factor is that for much of the current expansion, now in its tenth year, a significant degree of labor market slack has acted as a drag on growth in wage and salary earnings which, as noted above, constitute the largest single block of total personal income. Additionally, a prolonged period of artificially low interest rates has been a persistent drag on growth in investment income, specifically interest income. One could point to what for much of the current expansion has been notably low inflation, which in many years has led to miniscule cost of living increases in certain forms of transfer payments, most notably Social Security benefits, and thus has weighed on growth in total personal income. But, as the second chart above shows, growth in real (or, inflation adjusted) personal income during the current expansion has lagged that of past cycles, just as is the case with growth in nominal personal income. In any event, while income growth figures to accelerate further over coming quarters as labor market conditions tighten further and higher interest rates lift growth in investment income, it is unlikely that income growth will match, at least on any kind of sustained basis, the rate of growth seen during the storied 1990s expansion.

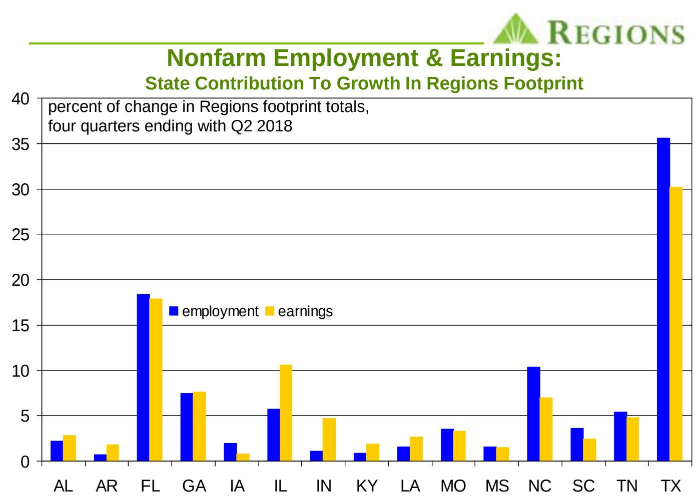


Source: Bureau of Economic Analysis; Regions Economics Division

The chart to the side shows year-to-date (through Q2) growth in both total personal income and total wage and salary earnings for each state in the Regions footprint. Compared to the same period in 2017, Florida saw total wage and salary earnings grow by 5.9 percent, with Texas seeing growth of 5.7 percent. Florida's growth is particularly notable given the state's above-average cluster of jobs in industry groups which tend to pay lower hourly wages and in which average workweeks tend to be shorter, such as leisure & hospitality services and retail trade. But, tight labor market conditions have led many firms in these industry groups to bump up wages from entry level positions on up, such that total wage and salary earnings in these industry groups are growing at a faster rate. At the same time, rapid job growth in industry groups such as construction and business services, which account for above-average shares of total employment in Florida, have seen wage and salary earnings grow at a well above-average rate, which has also been the case in the manufacturing and transportation/distribution industry groups. Tight labor market conditions and above-average concentrations of employment in higher-wage industries such as construction, mining/natural resources, and business services have driven growth in wage and salary earnings in Texas. At the other end of the spectrum, growth in total wage and salary earnings over the first half of 2018 was well below average in Iowa (2.5 percent) and Mississippi (2.4 percent). In between are states such as Alabama and Arkansas, in which growth in labor earnings has been fairly listless over much of the current expansion but has picked up over recent quarters as labor market conditions have tightened.  Keep in mind that labor earnings represent the largest single component of total personal income.

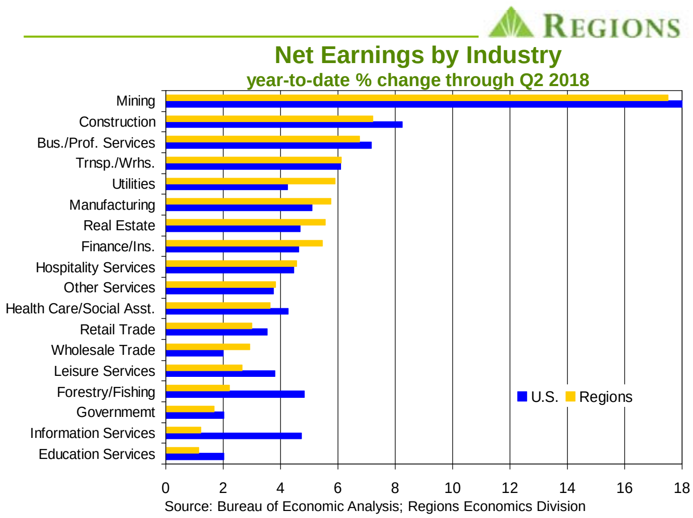


Source: Bureau of Economic Analysis; Bureau of Labor Statistics; Regions Economics Division

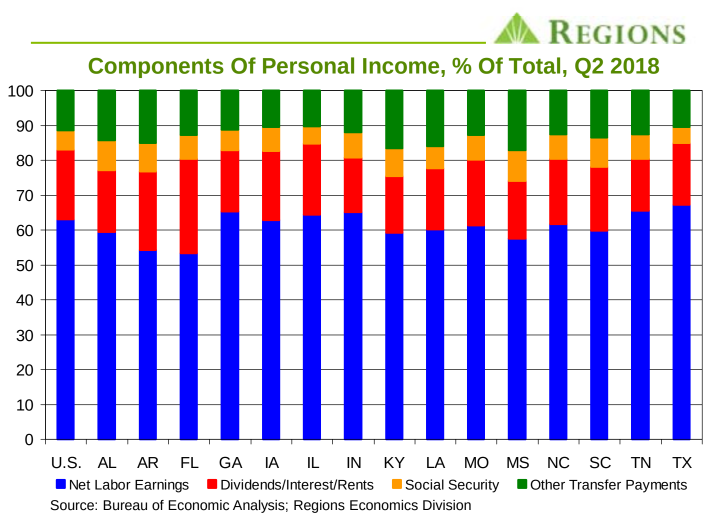


Source: Bureau of Economic Analysis; Bureau of Labor Statistics; Regions Economics Division

The first chart above shows each state's share, as of Q2 2018, of total nonfarm employment and total wage and salary earnings for the Regions footprint. As seen in the chart, Texas easily accounts for the largest share of both employment and earnings; that its share of earnings exceeds its share of employment points to above-average employment shares in in higher value industry groups. Conversely, that Florida's share of wage and salary earnings is smaller than its share of employment illustrates our earlier point about the state's high concentration of jobs in lower-wage industries. We thought it would be interesting to show, as we do in the second chart above, how each state in the footprint has contributed to overall growth in nonfarm employment and labor earnings in the Regions footprint as a whole over the past year. Over the four quarters ending with Q2 2018, Texas accounted for 35.6 percent of growth in total employment and 30.2 percent of growth in labor earnings in the footprint as a whole, with Florida accounting for 18.4 percent of growth in total employment and 17.9 percent of growth in total personal income. That means the two states have combined for over half of the growth in total employment in the 15-state footprint over the past four quarters and just over 48 percent of the growth in total labor earnings.




The chart to the side shows year-to-date growth in labor earnings by industry for the U.S. as a whole and the Regions footprint. Earnings growth in mining/natural resources easily outpaced all other industry groups, with growth of 18.0 percent in the U.S. as a whole and 17.5 percent in the Regions footprint. This high-wage industry group has seen job growth accelerate sharply in 2018 – the footprint has accounted for two-thirds of job growth in the U.S. as a whole in this industry group to date in 2018. To be sure, the shares of overall employment and income accounted for by mining/natural resources are small, but the rates of growth are nonetheless impressive. Construction, business services, and transportation/distribution/warehousing all posted above-average growth in earnings over the first half of 2018, while government, information services, and education services have posted below-average growth. The largest disparity between earning growth in the U.S. and the Regions footprint is in the information services industry group. Nationally, growth in earnings in the information services industry group is dominated by a few large technology hubs, such as California, Massachusetts, New York, and Washington state, where earnings in this industry group are well above the U.S. average. With relatively less exposure to technology, the Regions footprint has seen slower growth in employment and earnings in the information services industry group.




As labor earnings account for the largest share of total personal income, the industrial make-up of a given state is a key driver of growth in total personal income. Still, it is important to account for non-labor income when analyzing patterns in personal income growth. The chart to the side shows the shares of total personal income in each in-footprint state accounted for by labor earnings, investment income, and transfer payments as of Q2 2018. At 53.3 percent, labor earnings account for a smaller share of total personal income in Florida than any other in-footprint state, while investment income accounts for 27.1 percent of total personal income, well ahead of the U.S. average of 19.9 percent. This reflects Florida's demographic make-up, i.e., the high share of the state's population comprised of retirees, and our earlier point about how low interest rates have been a persistent drag on growth in investment income means Florida has seen slower growth in total personal income over recent years than would have otherwise been the case. With interest rates having risen of late and likely to rise further over coming quarters, Florida stands to see the biggest impact on growth over coming quarters.

Note that in the chart we split transfer payments into two blocks – Social Security benefits and all other transfer payments. This is to illustrate a point we frequently make in discussions of personal income, which is that while booked as personal income, most transfer payments do not actually reflect cash payments to individuals but instead reflect government payments to service providers in programs such as Medicare and Medicaid. This distinction matters when assessing the potential for growth in consumer spending, for instance, as any such assessment based on total personal income can yield different conclusions than a similar assessment based on personal income excluding transfer payments. We isolate Social Security benefits because they do represent a cash transfer and the vast majority of these benefits are spent relatively quickly by recipients, even if such spending is heavily skewed towards spending on necessities and not discretionary spending. It is also worth noting that over the past several years transfer payments related to health care programs have accounted for an increasing share of total state government spending and, as such, have added to growth in measured personal income, but this has overstated the growth in spending power of state residents. This distortion will only intensify over coming years as state-level spending on health care programs grows at an increasingly rapid rate, meaning growth in total personal income will be less and less useful as a gauge of overall economic vitality in any given state.

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At 25.9 percent, total transfer payments accounted for a higher share of total personal income in Mississippi than in any other in-footprint state in Q2 2018 (the U.S. average is 16.9 percent). Social Security benefits accounted for 8.7 percent of total personal income in Mississippi in Q2 2018 with other forms of transfer payments accounting for 17.2 percent, both the highest shares in the footprint (note that while the shares shift from quarter to quarter, the relative rankings across states have not changed materially over the past several years). At the other end of the spectrum, at 15.1 percent, transfer payments accounted for a smaller share of total personal income in Texas in Q2 than in any other in-footprint state, while labor earnings accounted for 67.2 percent of total personal income, the highest of any in-footprint state.

In closing, with labor markets tightening in each of the states in the Regions footprint, though obviously to different degrees, we expect to see firmer growth in net labor earnings and, in turn, total personal income over coming quarters. To the extent interest rates rise further over coming quarters, which we expect will be the case, this will also help buttress growth in total personal income. But, as the latter part of this discussion hopefully helps illustrate, differences in the composition of growth in personal income across individual states matter, and should be accounted for by anyone relying on growth in personal income as a gauge of overall economic activity, and in particular consumer spending, in any given state.

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**TOTAL PERSONAL INCOME, REGIONS FOOTPRINT**

| | Shares of Total Personal Income, Q2 2018, % | | | year-to-date % change through Q2 2018 | |
|---|---|---|---|---|---|
| STATE | Net Labor Earnings | Dividends, Interest, Rents | Transfer Payments | Total Personal Income | Total Personal Income Ex-Transfers |
| Alabama | 59.34 | 17.79 | 22.87 | 4.14 | 4.07 |
| Arkansas | 54.26 | 22.58 | 23.15 | 3.92 | 4.54 |
| Florida | 53.26 | 27.08 | 19.66 | 5.36 | 5.37 |
| Georgia | 65.42 | 17.50 | 17.08 | 4.35 | 4.30 |
| Iowa | 62.86 | 19.88 | 17.26 | 2.15 | 2.01 |
| Illinois | 64.29 | 20.38 | 15.32 | 4.47 | 4.06 |
| Indiana | 65.12 | 15.73 | 19.15 | 4.03 | 3.86 |
| Kentucky | 59.16 | 16.33 | 24.50 | 3.40 | 3.05 |
| Louisiana | 60.16 | 17.53 | 22.31 | 3.39 | 3.32 |
| Missouri | 61.41 | 18.81 | 19.78 | 3.54 | 3.55 |
| Mississippi | 57.57 | 16.52 | 25.91 | 3.41 | 3.80 |
| North Carolina | 61.73 | 18.73 | 19.54 | 4.42 | 4.37 |
| South Carolina | 59.85 | 18.34 | 21.81 | 3.73 | 3.76 |
| Tennessee | 65.57 | 14.78 | 19.65 | 4.09 | 4.32 |
| Texas | 67.21 | 17.70 | 15.09 | 5.25 | 5.64 |
| U.S. | 63.07 | 19.94 | 16.95 | 4.44 | 4.55 |

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