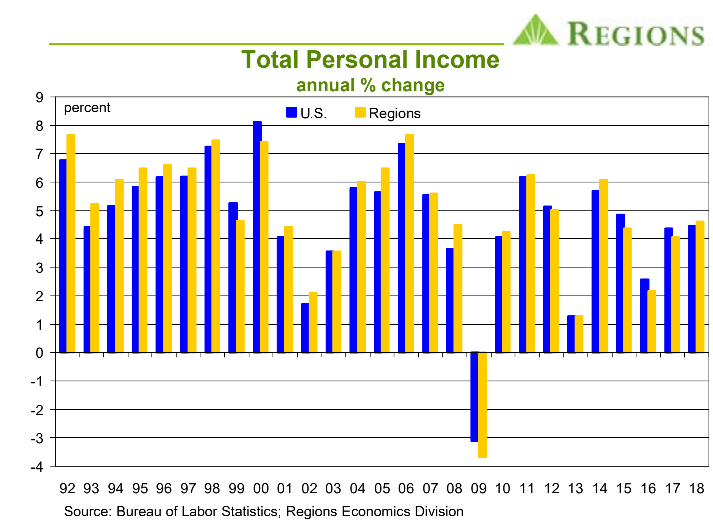
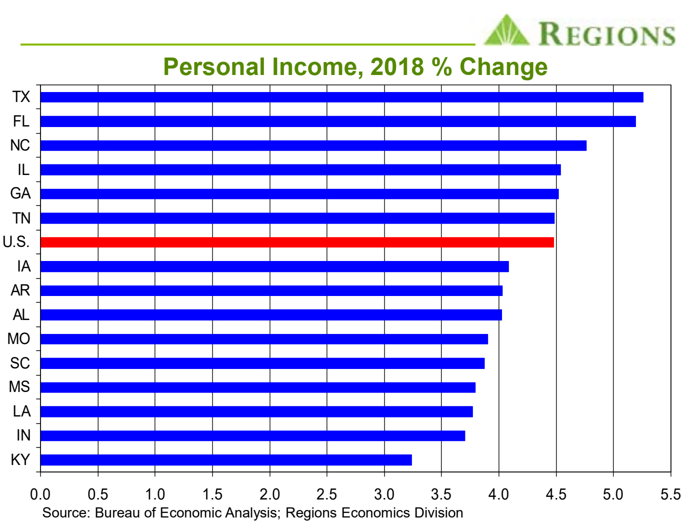
ECONOMIC UPDATE
REGIONS
April 2019

2018 State Personal Income: Regions Footprint

The Bureau of Economic Analysis (BEA) has released its data on state level personal income for Q4 2018 and full-year 2018. We'll caution, however, that at this point the data are preliminary and subject to revision. Still, having been through this drill on more occasions than we'd care to admit, our experience is that while revisions to the data for the broad categories, such as total personal income, do not tend to be as sizeable, the revisions to the underlying details, such as earnings by industry, can be material. As such, we will withhold a more detailed analysis of the more specific categories until the revised data are released (likely in June). While the data on earnings by industry in a given state are of considerable interest, as they help tie together the employment and Gross State Product data, the risk one runs is that any conclusions drawn on the basis of the preliminary data won't necessarily be the same as conclusions drawn on the basis of the revised data. So, for now we'll just offer a few high level results and note that between the preliminary and the revised data, relative rankings such as fastest to slowest growth in personal income may change some but don't tend to change by much.

The preliminary data show that for the Regions footprint as a whole, total personal income grew by 4.61 percent in 2018, compared to an increase of 4.47 percent for the U.S. As the first chart below shows, personal income growth for the Regions footprint as a whole has tracked that of the U.S. fairly closely over time. This is not unexpected given that the footprint accounts for roughly 36 percent of total personal income for the U.S., a share which has been little changed over the past three decades. But, this offers us another chance to reiterate a point we routinely make, which is that while the economic and demographic data for the Regions footprint taken as a whole track the national level data fairly closely, there is considerable variance across the individual states (and metro areas) within the Regions footprint. This is seen in the second chart below, which shows 2018 growth in total personal income for each state in the footprint. With an increase of 5.26 percent, Texas logged the fastest growth in total personal income of any state in the footprint in 2018, followed closely by the 5.19 percent increase in Florida. At the other end of the spectrum, the 3.24 percent increase in total personal income in Kentucky was the smallest of the in-footprint states, with Indiana, at 3.70 percent, seeing the second smallest increase.





In the context of the changes triggered by the 2017 tax bill, which included lower personal income tax rates and changes in allowable deductions, that took effect on January 1 2018, it is also of interest to look at growth in disposable personal income, or, after-tax personal income. In most years, growth in total personal income and growth in disposable personal income track each other fairly closely, but in years in which there are changes that impact individual tax rates there will be a difference in growth rates of before-tax and after-tax income. Prior to 2018, the last year in which this was the case was 2013, the year in which the Bush-era tax cuts expired (after having been extended during the Obama administration). As such, while total personal income for the U.S. as a whole increased by 1.27 percent in 2013, disposable personal income increased by only 0.08 percent – there were a handful of states in which disposable personal income

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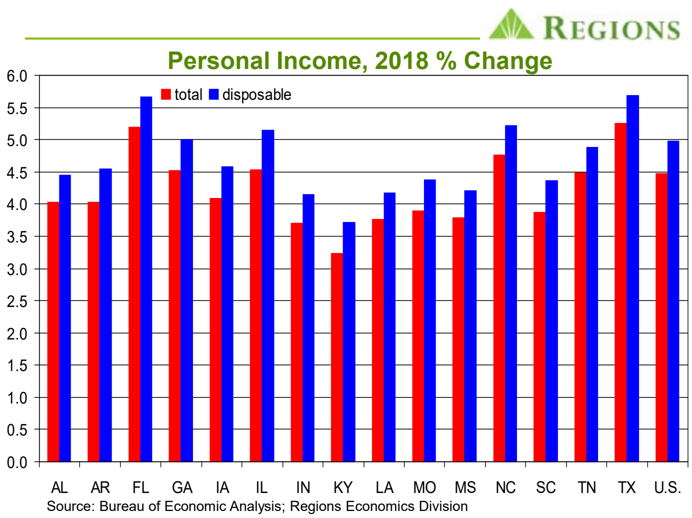
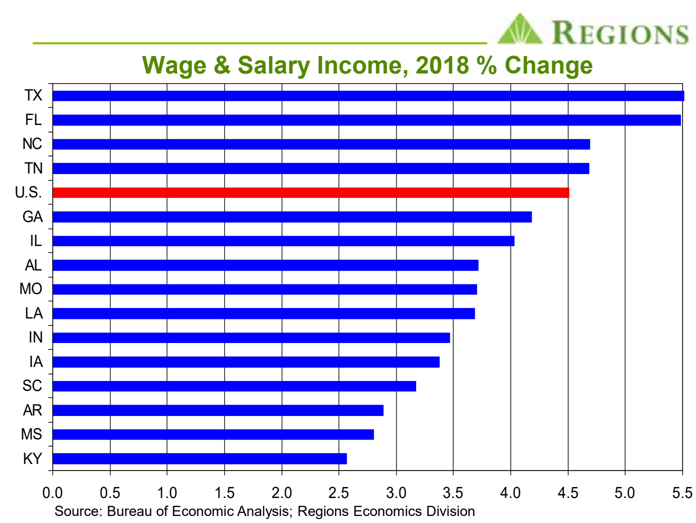
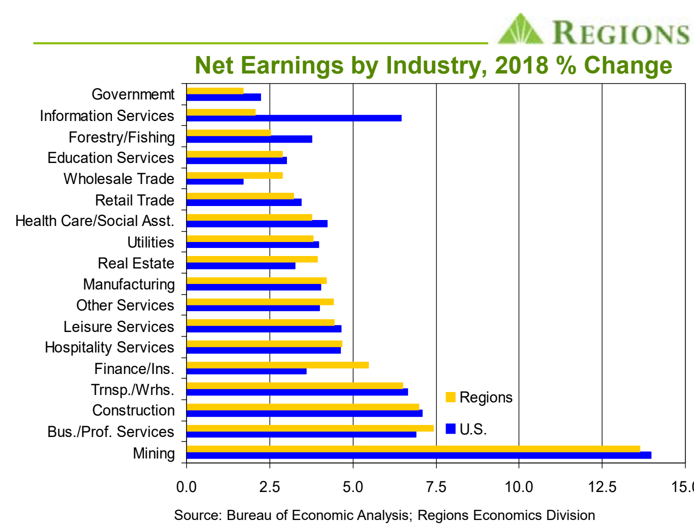
actually declined in 2013 due to higher tax bills. In 2018, with lower individual tax rates – countered to some degree in certain states by limitations on allowable deductions – growth in disposable personal income topped growth in total personal income. The chart to the side shows the comparison for each state in the Regions footprint and the U.S. as a whole. The relative rankings, however, were little changed, with Texas posting 5.69 percent growth in disposable personal income and Florida posting 5.66 percent growth to lead the footprint while Kentucky lagged with an increase of 3.71 percent.



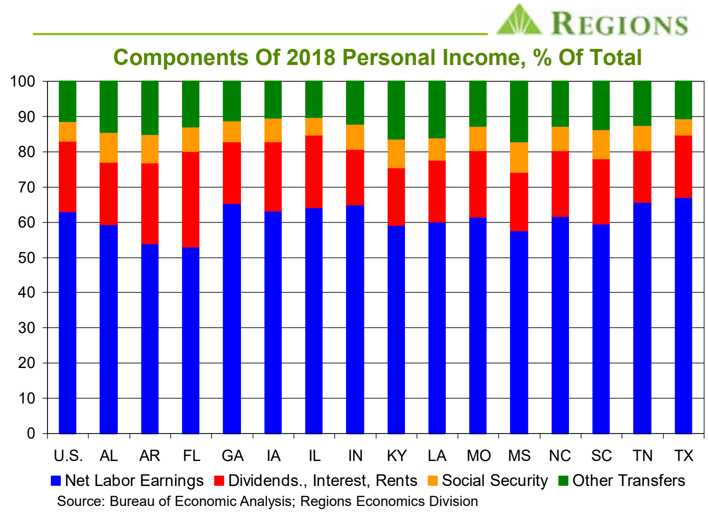
As for the components of total personal income, labor earnings are easily the largest single contributor to total personal income. In 2018, the pace of job growth accelerated, for both the U.S. and for the Regions footprint as a whole, and tighter labor market conditions contributed to faster wage growth, though, again, results varied significantly amongst the individual states within the Regions footprint. Texas posted a 5.51 percent increase in aggregate wage and salary earnings in 2018, followed closely by the 5.48 percent increase in Florida. With an increase of just 2.57 percent, Kentucky posted the slowest growth in aggregate wage and salary earnings of the in-footprint states. Keep in mind that the mapping between growth in nonfarm employment and growth in aggregate wage and salary earnings is not, nor should it be expected to be, perfect. As aggregate wage and salary earnings account for the number of people working, the number of hours each person works, and how much a person earns each hour they work, the state with the fastest pace of job growth need not be the state with the fastest growth in aggregate wage and salary earnings. Instead, one must account for differences across states in job growth by industry group, differences in hourly earnings across industry groups, and differences in the length of the average workweek across industry groups. For instance, South Carolina posted the second fastest job growth in the Regions footprint in 2018, but the 3.17 percent in aggregate wage and salary earnings in the state was the fourth slowest, reflecting a higher concentration of job growth amongst lower-wage industry groups.





The second chart above shows 2018 growth in net labor earnings across the various industry groups for the U.S. and for the Regions footprint as a whole. Earnings in the mining industry group grew significantly faster than in any other industry group, both nationally and within the Regions footprint, but as this industry group accounts for such a small share of total employment (0.50 percent nationally, 0.64 percent within the footprint), the contribution to overall growth in aggregate labor earnings from mining was fairly small. To our earlier point, within the Regions footprint, health care/social assistance and education services routinely post some of the largest job gains of the major industry groups yet tend to post below-average growth in earnings, which to a large degree is a reflection of below-average hourly wages. Construction and business services each posted sizable increases in employment in 2018 which, combined with above-average hourly wages, accounts for the solid gains in total earnings. Again, as the 2018 income data are still preliminary, we don't want to go into great detail on industry level earnings at this point, but did think it would be interesting to show the preliminary results.

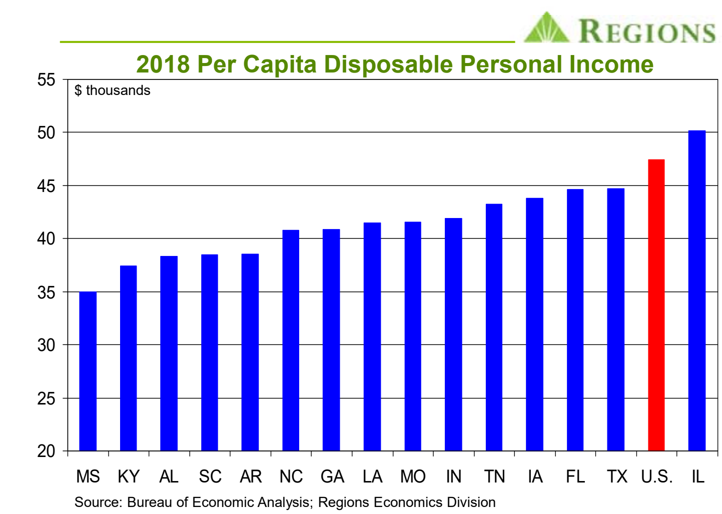
For the Regions footprint as a whole, labor earnings accounted for 61.90 percent of total personal income in 2018, compared to the U.S. average of 63.00 percent. At 67.03 percent, labor earnings accounted for a higher share of total personal income in Texas in 2018 than in any other in-footprint state, followed by a 65.64 percent share in Tennessee. In contrast, labor earnings accounted for 53.08 percent of total personal income in Florida in 2018, the smallest share in the footprint, and while this distinction has consistently gone to Florida over the years, Arkansas is not far behind, with labor earnings accounting for 54.00 percent of total personal income in 2018. While labor earnings are the largest component of total personal income, it is nonetheless important to account for the remaining components when looking at sources of growth in personal income.



The category labeled "property income" (the BEA's designation) includes rental income as well as income from interest and dividends. Nationally, property income accounted for 20.04 percent of total personal income in 2018 and accounted for 19.61 percent of total personal income for the Regions footprint as a whole. In Florida, however, this share jumps up to 27.17 percent, easily the highest in the footprint. This is in large measure due to Florida's demographic make-up, i.e., a high share of residents who are retired and drawing on investment income as an important source of income. Arkansas is another state in which property income accounted for a notably high share – 22.81 percent – of total personal income in 2018. As noted above, these are the two states in the footprint in which labor earnings account for the smallest shares of total personal income. At the other end of the spectrum, property income accounted for only 14.74 percent of total personal income in Tennessee in 2018 and for 15.78 percent in Indiana.

The other broad component of personal income is transfer payments, which take on many forms, including Social Security benefits. That several other states see Social Security benefits account for a larger share of total personal income than is the case in Florida (6.93 percent) simply shows the significance of investment income to Florida residents. Accounting for all forms of transfer payments, not just Social Security, shows transfer payments accounted for the largest share of total personal income in Mississippi (25.90 percent) and Kentucky (24.42 percent) in 2018, each well above the national average of 16.96 percent. This is worth noting because many forms of transfer payments, such as Medicare and Medicaid, do not reflect cash payments to individuals but instead reflect payments from a government entity to a provider of specific services. As such, total personal income overstates the income pool out of which current consumption spending is financed. It is for this reason we focus on personal income excluding transfers as the basis for analyzing consumer spending patterns and deb service burdens.

Finally, the chart to the side shows 2018 per capita disposable personal income for each in-footprint state and for the U.S. As seen in the chart, Illinois ($50,157) is the only in-footprint state in which per capita disposable income is above that for the U.S. as a whole. This has generally been the case over the years, and the gaps between the remaining states and the U.S. are showing no signs of closing. This is the case in Florida and Texas, states in which total personal income and disposable personal income are growing faster than the U.S. average, but so too is the population of each state, which is holding down growth in per capita income. In other states, such as Kentucky, slow growth in overall income/disposable income is the bigger culprit in the persistent gap in per capital income.



As noted at the outset, though subject to revision, the preliminary 2018 data still offer some insight into trends in personal income growth and broader economic activity on the state level. Our hope is that the revised data, likely out in June, will allow us to more thoroughly tie together the data on nonfarm employment and Gross State Product on the industry level on a state-by-state basis. This will allow us to better isolate industry drivers of economic activity in each of our in-footprint states.

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TOTAL PERSONAL INCOME, REGIONS FOOTPRINT

	Contribution to 2018 change in total personal income, % points			2018 % change	
STATE	Net Labor Earnings	Dividends, Interest, Rents	Transfer Payments	Total Personal Income	Disposable Personal Income
Alabama	60.97	15.54	23.49	4.03	4.45
Arkansas	56.60	29.62	13.78	4.03	4.54
Florida	54.23	25.99	19.78	5.19	5.66
Georgia	63.17	17.46	19.37	4.52	5.01
Iowa	60.55	19.48	19.97	4.09	4.58
Illinois	55.71	22.34	21.95	4.54	5.15
Indiana	58.87	17.56	23.57	3.70	4.15
Kentucky	48.80	19.64	31.56	3.24	3.71
Louisiana	60.01	16.91	22.08	3.77	4.17
Missouri	60.99	20.22	18.79	3.90	4.37
Mississippi	66.63	15.12	18.25	3.79	4.20
North Carolina	59.83	20.14	20.03	4.76	5.22
South Carolina	50.00	24.03	25.97	3.87	4.36
Tennessee	67.19	15.08	17.73	4.48	4.89
Texas	71.00	17.20	11.80	5.26	5.69
U.S.	62.09	21.80	16.11	4.47	4.98

Source: Bureau of Economic Analysis; Regions Economics Division

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