ECONOMIC UPDATE
REGIONS
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2018 Median Household Income And Poverty Rates: Regions Footprint

The U.S. Census Bureau recently released state-level data on poverty rates and median household income for 2018. Median household income increased further in 2018, but the rate of growth slowed considerably from the pace seen over the prior three years. According to the Census Bureau, median household income rose by 2.65 percent in 2018, the smallest increase since 2013. At the same time, inflation, as measured by the PCE Deflator, posted its largest annual increase since 2011 which, combined with slower growth in nominal income, led to a meager 0.55 percent increase in real median household income. Still, on top of the solid gains posted in each of the three prior years, growth in median household income continues to make up for the fairly listless growth seen during the earlier years of the expansion, nationally and across much of the Regions footprint. This is a sign that the fruits of the current economic expansion are now being spread across a wider group of households than was the case earlier in the expansion. That the benefits of an economic expansion become more broadly based as the expansion endures is not in and of itself unusual; what makes the current cycle stand out is the length of time it took to get to the point where growth in median household income solidified to a meaningful degree. In conjunction with the release of the data on median household income, Census also released national and state-level data on the incidence of poverty. While the poverty rate fell further in 2018, to 13.11 percent, the decline was smaller than those seen over prior years. Our view is that this simply reflects the fact that, after the cumulative declines over the past several years, there is limited downside room for the poverty rate, as it is now hovering in a range last seen at the end of the much vaunted economic expansion of the 1990s. If we're correct on this point, the 2019 data will show another decline in the poverty rate, but only a relatively small decline. In what follows we look at trends in median household income and poverty rates for the states in the Regions footprint, and how these trends compare to those for the U.S. as a whole. As we frequently note, while rates of job and income growth for the Regions footprint, taken as a whole, are in line with U.S. averages, there is a considerable degree of divergence when the states are looked at individually. The data on median household income and poverty rates are no different in this regard.

Real Median Household Income

STATE	Level, 2018	2018 % change	Cumulative % change, 2015-18	2018 as % of prior peak
Alabama	$46,106	1.49	10.31	101.77
Arkansas	$43,518	0.50	8.24	102.20
Florida	$51,286	3.29	10.69	98.10
Georgia	$54,332	2.44	12.67	100.43
Iowa	$55,440	0.27	6.01	106.60
Illinois	$60,133	1.12	7.45	100.71
Indiana	$51,548	0.78	7.02	96.96
Kentucky	$46,463	1.74	10.81	105.24
Louisiana	$44,298	1.69	2.28	95.40
Missouri	$50,376	-0.40	6.97	101.00
Mississippi	$41,350	0.63	6.98	98.85
North Carolina	$49,800	0.00	9.69	100.76
South Carolina	$48,367	1.31	9.64	98.22
Tennessee	$48,431	-0.07	11.85	103.64
Texas	$56,064	0.31	8.49	105.51
U.S.	$57,273	0.55	9.45	103.21

Source: U.S. Census Bureau; Regions Economics Division

Before proceeding we'll take care of a few housekeeping items pertaining to the data. The Census Bureau publishes two different measures of median household income and poverty, because, really, why wouldn't you. One set of measures is derived from the Current Population Survey (CPS), which is the same survey from which the unemployment rate is derived. The CPS data are used to produce a range of demographic and socioeconomic estimates for the U.S. as a whole and, to a lesser degree, states and metro areas. The second set of measures is drawn from the American Community Survey (ACS), which is used to produce estimates of various social, economic, and housing characteristics on geographies ranging from the county level to the national level. On the national level, Census suggests using the measures produced from the CPS, but on the state level and below the measures produced from the ACS are used. The ACS is the data set from which the measures discussed here

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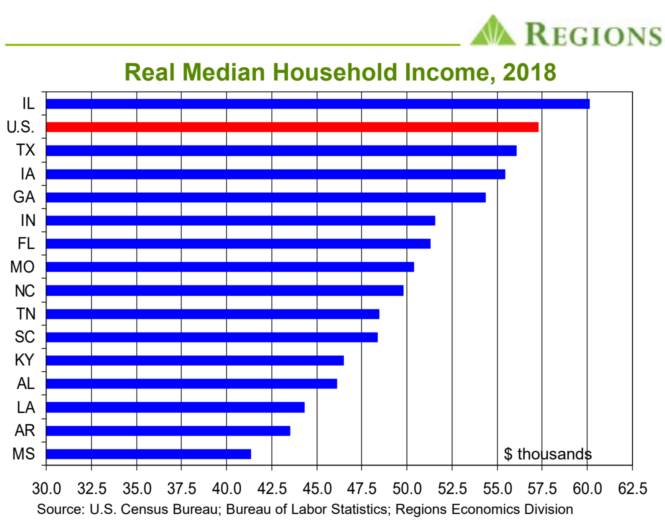
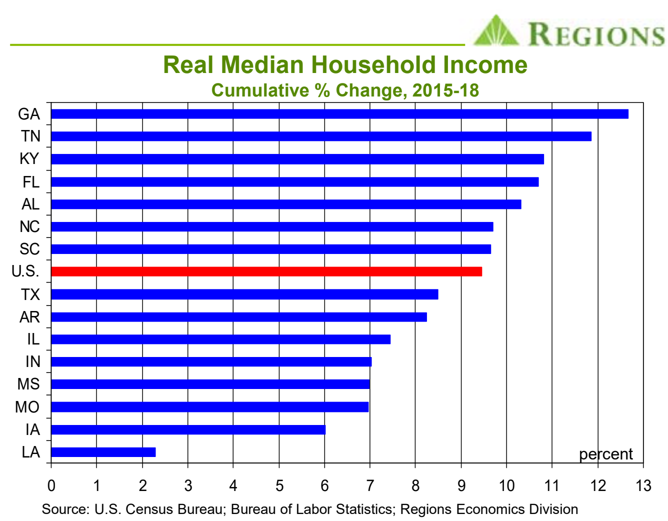
were produced, so for the U.S. the level of median household income and the poverty rate will not match those you may have seen in media accounts of the income and poverty data, as those accounts are based on the CPS measures. The two are close and, more significantly, the direction and magnitude of changes in the metrics produced from the two surveys are consistent. One drawback of the ACS data is that there is a limited history of data, making it difficult to make meaningful comparisons across time.

It is also worth noting that one of the difficulties in dealing with aggregate measures is that they tell us nothing of the distribution of the underlying variable. For instance, if total personal income grows by, say, five percent in a given year, that doesn't tell us whether that growth is widely distributed across the population or highly concentrated amongst a relatively small segment of the population. This is one advantage of using median household income as a gauge of the extent to which growth is enjoyed by a wider segment of the population, though it is certainly not a perfect measure. Median household income considers money income, such as labor earnings, financial transfer payments, interest income, and dividend income, but does not include non-cash payments such as food stamps, housing subsidies, or Medicaid, nor (and this is useful when considering the data for Florida) does it include capital gains. Finally, in most of what follows our basis for discussion is real, i.e., inflation adjusted, median household income. This is, after all, the more relevant measurement as it accounts for not only growth in nominal income but also the purchasing power of that income.

That growth in median household income decelerated sharply in 2018 may seem at odds with patterns seen in other measures of income, such as total personal income and disposable personal income. One difference is that, in contrast to total personal income, non-cash income is not included in the calculation of median household income. The most visible examples are non-cash transfer programs such as Medicare and Medicaid, which take the form of reimbursements to service providers as opposed to direct payments to program recipients. Faster growth in these transfers in 2018 boosted growth in total personal income but had no impact on median household income. This matters in a state such as Mississippi, where transfer payments account for an above-average share of total personal income. So, while growth in total personal income in Mississippi accelerated in 2018, growth in median household income decelerated. Additionally, growth in disposable (or, after-tax) personal income got a significant boost from the lower personal income tax rates incorporated into the 2017 tax bill, but as median household income is a gross, or, before-tax, measure rather than a net, or, after-tax, measure, lower personal income tax rates in 2018 had no impact on median household income. It is also worth noting that asset-based income, such as dividends and interest, is included in median household income. As such, growth in median household income in those states in which such income accounts for a larger share of total personal income got an outsized boost in 2018 given that growth in asset-based income was notably stronger. Florida is one such state, which helps account for Florida having posted the largest gains in nominal (5.45 percent) and real (3.29 percent) median household income of any state within the Regions footprint in 2018.





Real median household income in Illinois was equivalent to 104.40 percent of the real median household income for the U.S. as a whole in 2018 which, as seen in the chart above, makes Illinois the only state in the Regions footprint in which the level of real median household income is above the U.S. median. In Mississippi, the level of real median household income stood at 72.14 percent of the national level. Of the states within the Regions footprint, Georgia (12.67 percent), Tennessee (11.85 percent), and Kentucky (10.81 percent) posted the largest cumulative increase in real median household income over the 2015-18 period, with Louisiana (2.28 percent) and Iowa (6.01 percent) lagging. To a large extent, the slower growth in Louisiana reflects the extent to which the downturn in the energy sector impacted the state economy, with both nominal and real median household income having declined in 2016. A much more diversified economy cushioned the blow from the energy sector on the Texas economy.

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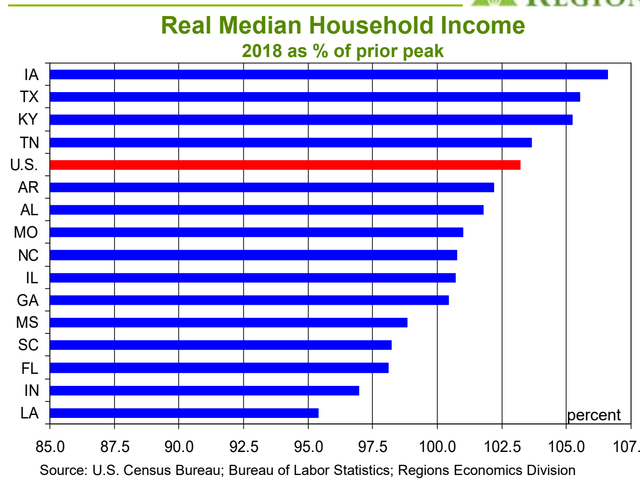
There are a number of factors that impact the level and rate of growth of median household income. One relevant factor is the population split between those living within and outside of metropolitan statistical areas, which is a particularly relevant factor across the Regions footprint. Median household incomes for those living within a metropolitan statistical area (MSA) are significantly higher than for those not living within an MSA, and many states in our footprint have high concentrations of populations who reside outside of MSAs. More generally, of the four broad Census regions, the highest median household incomes are in the Northeast and West regions, with the Midwest and South having the third and fourth, respectively, highest. Aside from these geographical factors, the industrial make-up and the rate of job growth within a specific geographic area are key factors in the level of and growth of median household income. So, in those states with high percentages of population residing outside of an MSA, with little industrial diversity, or with heavy exposure to an industry in either a cyclical downturn or a structural decline, one would expect to see both lower levels of median household income and slower growth over time. The composition of personal income also matters, in that those states in which transfer payments account for higher shares of total personal income would be expected to have lower levels of median household income.

Clearly, the severity of the 2007-09 recession took a heavy toll on median household income across the entire nation. That total nonfarm employment continued to decline until January 2010 and then increased at a highly uneven pace, across geographies and across industry groups, prolonged the drag on median household income in the early phases of the recovery. Sluggish wage growth over much of the current expansion has been another drag on growth in median household income. As such, it will likely come as little surprise that on an inflation adjusted basis, median household income has yet to return to pre-recession levels in many states across the U.S., including five within the Regions footprint. That said, the pace of wage growth has picked up over the past few quarters, and the breadth of wage growth across industry groups has increased significantly. Further acceleration in wage growth over coming quarters should contribute to further growth in median household income over the remainder of the current expansion, which we believe has further to run. It is also worth noting that full-year 2019 inflation (we look for PCE inflation of 1.50 percent) will be considerably below 2018's rate of 2.09 percent, which will lift growth in real median household income.

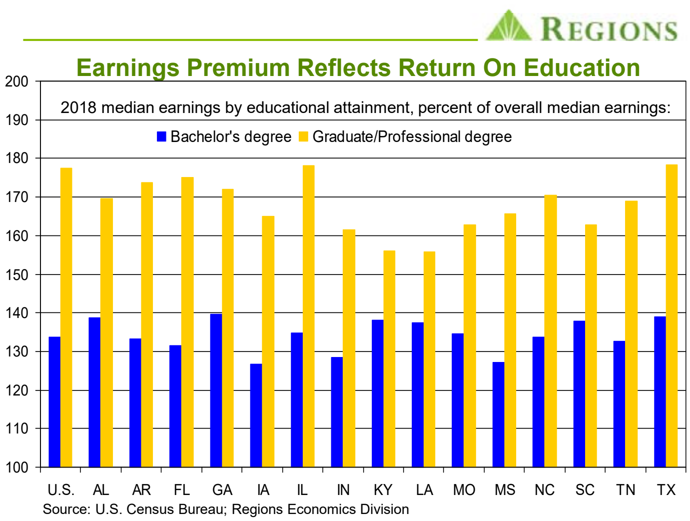


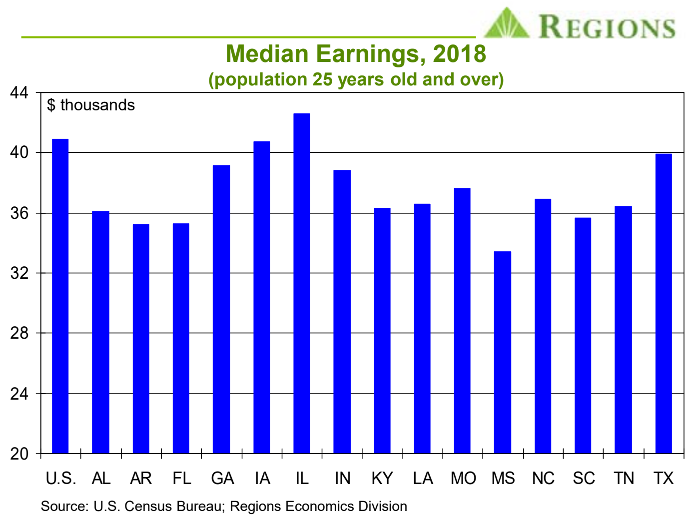
We offer the above discussion as a means of putting the chart to the side in proper context. The chart shows 2018 real median household income as a percentage of the prior cyclical peak (i.e., the peak prior to the 2007-2009 recession). As seen in the chart, five of the 15 states in the Regions footprint had yet to see real median household income return to the prior cyclical peak as of 2018. This is a perfect illustration of why we emphasize real (i.e., inflation adjusted), as opposed to nominal, median household income. In each in-footprint state and for the U.S. as a whole, nominal median household income is easily above the prior cyclical peak. Focusing on this measure, however, ignores the erosion of purchasing power due to inflation over the intervening period. That the bottom five states in the chart to the side have a higher level of nominal median household income is irrelevant given that the quantity of goods and services households can purchase with that income remains well below what it was prior to the last recession.

That real median household income has taken so long to recover from the 2007-09 recession is a good, even if somewhat discomforting, illustration of the extent to which structural shifts in the economy have powerful and long-lasting impacts for those on the wrong side of these shifts. For instance, increased globalization and the increased use of technology that significantly boosted productivity growth within the manufacturing sector have led to a secular decline in manufacturing employment – what until recently had been a nice run of growth in manufacturing employment notwithstanding. Moreover, one of the attractions to manufacturing entities, particularly those involved in motor vehicle production, who have located plants in the Southern states over the past decade or two has been a largely non-unionized labor force, which has held wages below where they would have been in other parts of the U.S.

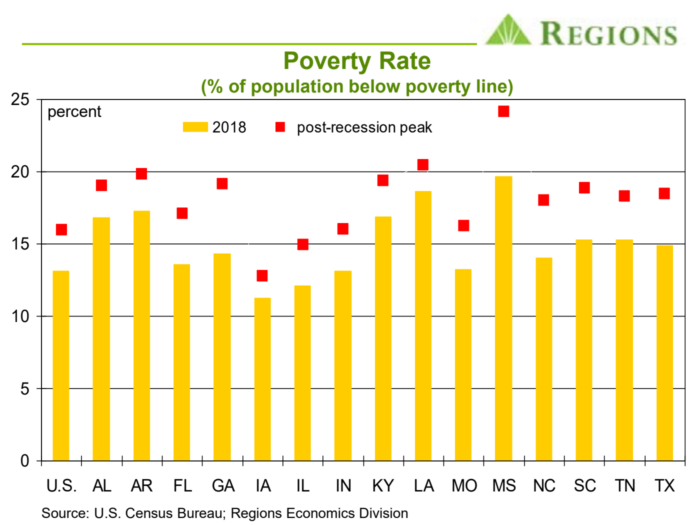
More broadly, the extension of the "tech revolution" of the 1990s and early 2000s has increased the premium attached to skilled and more highly educated labor, so generally lower concentrations of adults with Bachelor's degrees or higher also help account for patterns in median household income within parts of the Regions footprint. As can be seen in the first chart on the following page, there is a significant earnings premium associated with a Bachelor's degree, and an even larger premium associated with a graduate or professional degree. For instance, in Texas median 2018 earnings of those with a Bachelor's degree were 38.91 percent above the overall median level of earnings, while median earnings for those with a graduate or professional degree were 78.32 percent above the overall median.

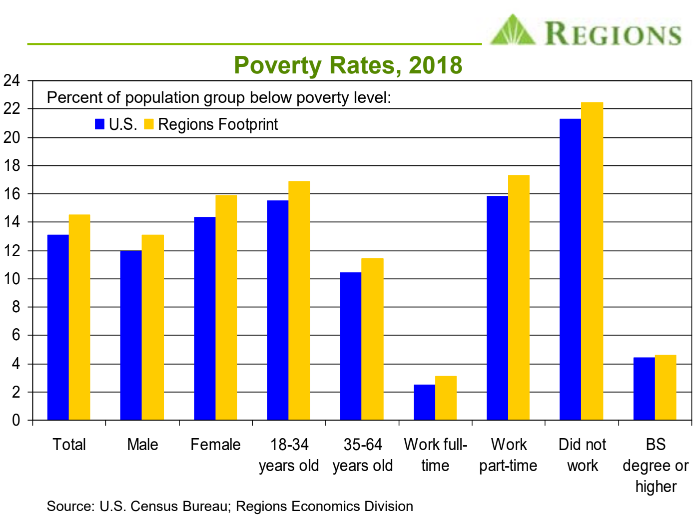
As seen in the chart, the premiums vary from state to state, as does the share of the 25-and-over population possessing either type of degree, with most of the states in the footprint lagging the national average in this metric. This disparity in earnings amongst those with differing levels of educational attainment is one of the primary reasons that the degree of income inequality has widened over the past several years. We will note, however, that while still strikingly large, the earnings gaps between those with and those without college/graduate degrees have actually narrowed over the past three years as earnings growth in lower-skill industry groups has picked up. This goes to our point about the fruits of the current expansion reaching, albeit somewhat belatedly, a wider swath of households, and this is true both nationally and within the Regions footprint. This simply took much longer to occur in the current expansion than has been the case in the past, given the slow pace of growth seen over the course of this expansion and the degree of labor market slack present at the beginning of the expansion.





Even so, as income growth has picked up pace, the poverty rate has been pushed lower. As of 2018, the ACS data show 13.11 percent of the U.S. population was living below the poverty line. Though poverty rates decreased across all broad demographic cuts in 2018, the geographical patterns evident in the data on median household income are also present, as would be expected, in the poverty data. In other words, the South has a higher poverty rate than any of the other three broad Census regions, and the incidence of poverty is higher amongst those living outside of an MSA than amongst those living within an MSA.





The first chart above shows the 2018 poverty rate (represented by the gold bars) for each state in the Regions footprint relative to the peak associated with the 2007-09 recession (represented by the red squares). It is worth noting that while the recession ended in June 2009, poverty rates generally did not peak until 2011 or 2012, which corresponds with the troughs in real median household income in the individual states. In light of the previous discussion of the meager growth in real median household income in Louisiana over the past few years and the outright decline in 2016, it will come as no surprise that Louisiana’s poverty rate increased in 2016. While the state's poverty rate has fallen in each of the past two years, it is nonetheless still closer to the cyclical high than is the case in any other state in the footprint. The second chart above shows poverty rates, for the U.S. as a whole and the Regions footprint as a whole, amongst different segments of the population. The relative rates across groups are not surprising, i.e., those working full time and those with higher levels of educational attainment have poverty rates significantly below the overall average, but we nonetheless thought it would be interesting to show the comparison across these various segments.

The state-level data on poverty from the ACS do not go back long enough to draw any meaningful conclusions as to how much further we might expect poverty rates to fall should we continue to see healthy growth in median household incomes, but it does follow that poverty rates should drift at least modestly lower as the expansion endures. The key will be further tightening in labor market conditions, in terms of both adding more jobs and wages rising at a faster pace. To the extent more of those either only marginally attached to the labor force or not currently participating in the labor force are drawn into full-time employment, that will be reflected in faster growth in household incomes and further declines in poverty rates across most of the broad demographic groups.

It took a frustratingly long time, but sturdier growth in median household incomes over recent years shows the benefits of the ongoing economic expansion have worked their way to an increasingly broad based group of households, which is the case nationally and within the Regions footprint. We expect the 2019 data to show further improvement, but given the current expansion is now in its eleventh year, it is natural to wonder how much longer the expansion, and in turn the improvement in median household incomes, will endure. While another recession is inevitable at some point, it is highly unlikely that recession will approach the severity of the 2007-09 recession. That said, even a seemingly mild recession, such as the 2001 recession, can do considerable, and long-lasting, damage to living standards when it comes amidst significant structural changes in the economy. As we have learned over the course of the current expansion, recapturing the ground lost during the next recession will depend on how broad based and how robust the subsequent expansion is. Here's hoping the next expansion does better than the last two, on both counts.

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