ECONOMIC UPDATE

REGIONS

March 2016

Regions Footprint: 2015 State Personal Income

The Bureau of Economic Analysis (BEA) has released detailed data on state level personal income for Q4 2015 and annual data for 2015. For the 16-state Regions footprint as a whole, total personal income grew by 4.3 percent in 2015, down marginally from the 4.4 percent growth logged in 2014. For the U.S. as a whole, total personal income grew by 4.4 percent in both 2014 and 2015. The state level income data come with useful details on the components of personal income as well as an industry breakdown of labor earnings. These details offer useful insight into the underlying trends in the economies of the individual states, particularly pertaining to the labor market, although to some extent the lagged release of the income data means they serve more to verify what we have already observed in the employment data. Still, we can gain insights from the paths of the various components of personal income – for instance, in those states in which transfer payments account for a significant portion of growth in total personal income, we can infer a given rate of income growth will yield less growth in discretionary consumer spending than in those states in which income growth is driven by labor earnings or investment income. In what follows, we will highlight what we think are the more relevant aspects of the state level personal income data and what this tells us about economic conditions across the Regions footprint. Unfortunately, data on metro area personal income do not come with the same level of detail as the state level data, and the broader data are only released with a very lengthy lag, so there will not be a metro area counterpart to this piece. Though for anyone genuinely interested in the details of 2015 metro area personal income, feel free to check back with us in late-2017.

Total Personal Income, Regions Footprint

	Contribution to 2015 Change In Total Personal Income % of total change			Total Personal income	
State	Net Labor Earnings	Dividends, Interest, & Rents	Transfer Payments	2015 % change	% change, 2010-2015
AL	59.25	15.49	25.26	4.09	16.12
AR	46.75	22.78	30.46	3.93	24.60
FL	60.32	18.42	21.26	5.18	22.50
GA	67.80	12.34	19.86	5.25	23.66
IA	-146.02	118.20	127.82	0.63	19.06
IL	65.01	19.76	15.23	3.68	17.56
IN	56.01	15.36	28.62	3.96	21.60
KY	54.14	13.36	32.50	4.55	20.29
LA	37.12	20.03	42.85	3.39	19.40
MO	49.60	25.11	25.29	3.03	18.41
MS	41.95	17.57	40.49	2.89	15.99
NC	64.84	13.72	21.44	4.84	20.10
SC	60.48	12.52	27.00	5.10	22.30
TN	67.92	11.62	20.46	4.81	22.72
TX	61.47	14.07	24.46	4.32	32.88
VA	66.48	18.09	15.43	4.28	19.94
U.S.	62.07	17.03	20.90	4.37	22.99

Source: Bureau of Economic Analysis; Regions Economics Division

As seen in the table, of the states in the Regions footprint Georgia, Florida, and South Carolina posted the biggest gains in total personal income in 2015, while Iowa's income growth lagged badly and growth in Louisiana, Mississippi, and Missouri was well off the overall average. To clarify, "net labor earnings" includes all wages earned (on a place of residence basis), supplements to wages and salaries, and proprietors' income (i.e., profits) and is easily the largest component of total personal income. Iowa saw net labor earnings in agriculture fall sharply in 2015, going from $7.4 billion in 2014 to $2.7 billion in 2015, which is a reflection of the weak pricing environment for agricultural products that prevailed last year. This decline in labor earnings in the farm sector was so severe that it more than offset the modest gain in nonfarm labor earnings in the state (this explains the "negative" contribution to total personal income growth shown in the table), and with Iowa

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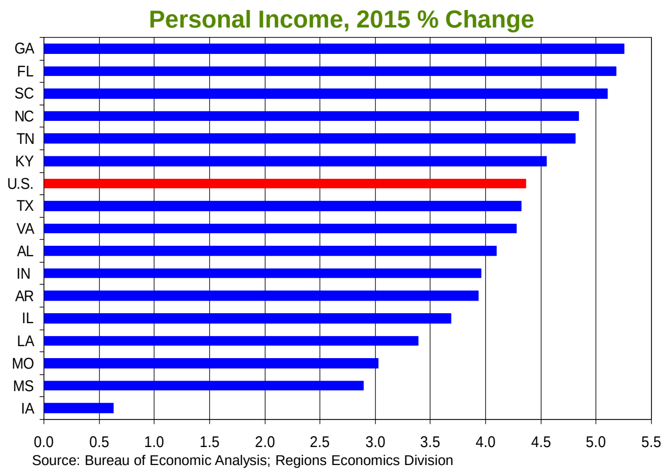
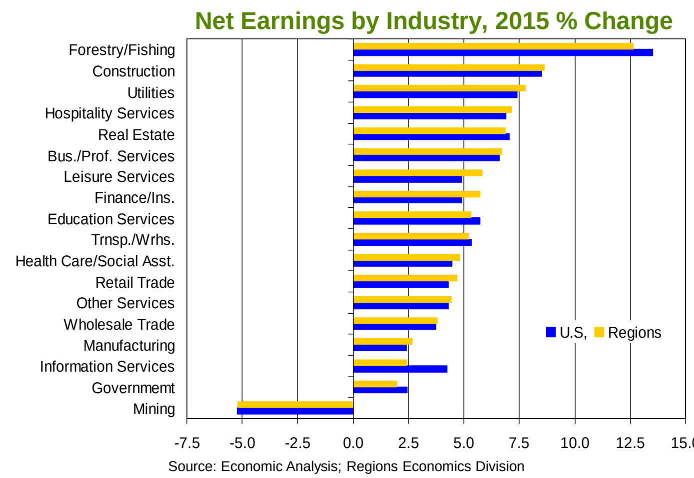
residents taking in below-average shares of income from investments/rents and transfer payments, the net result was only a paltry gain in total personal income in 2015. Aside from Iowa, Louisiana saw very weak growth in net labor earnings in 2015 reflecting declines in earnings in the farm and energy sectors. As a result, net labor earnings accounted for only 37 percent of growth in total personal income in Louisiana, while rising transfer payments – mainly reflecting rising Unemployment Insurance benefits – accounted for just under 43 percent of income growth. Like Louisiana, Texas also saw net labor earnings in the energy sector fall sharply in 2015 but, unlike Louisiana, the Texas economy is sufficiently diverse so that growth in other private sector nonfarm industry groups more than offset declining energy earnings, and net labor earnings accounted for 61.5 percent of total income growth in the state in 2015.

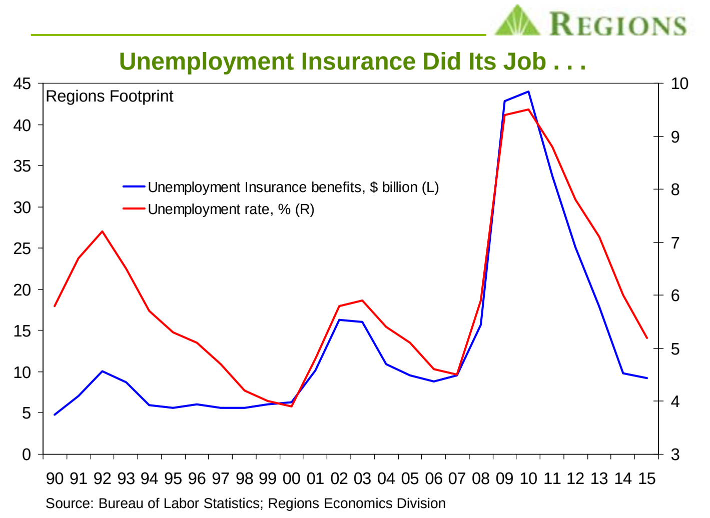




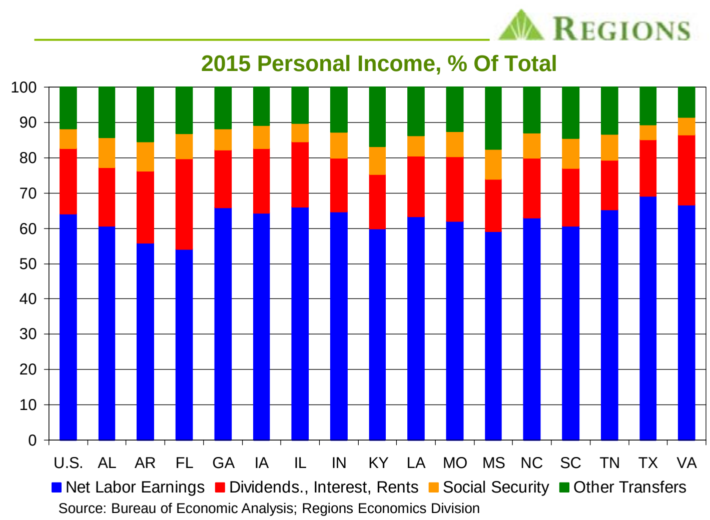
The chart on the right above shows a breakdown of 2015 net labor earnings by industry for the Regions footprint compared to that for the U.S. as a whole. Note we have not included the farm sector in the chart – farm earnings were down almost across the board in 2015 and for the footprint fell by 26.4 percent, compared to a 21.9 percent decline nationally, and the honest answer is declines of these magnitudes would have so badly distorted the scale of the chart it would have been hard to get much use out of it, so we simply left the farm sector out (yes, we do worry about such things). In any event, other common traits across most of our states and the U.S. include earnings in the forestry/fishing and construction industries up sharply in 2015. The latter is of interest in light of constant complaints of labor shortages on the part of homebuilders and the lack of meaningful growth in hourly earnings in the construction industry from the monthly employment reports – there is an inconsistency somewhere down the line but we think the personal income data are more reflective of what's taking place. Florida (12.5 percent), Illinois and Tennessee (both 11.1 percent), and North Carolina (10.5 percent) saw the largest increases in earnings in the construction industry in 2015. Mississippi was the lone state in the footprint to see construction earnings fall, while Alabama and Louisiana saw only meager gains. In Alabama and Mississippi, limited growth in residential construction is a primary factor, while in Louisiana a mix of restrained growth in residential construction and a sharp decline in construction of energy platforms held down growth in construction earnings (keep in mind the construction industry encompasses residential and nonresidential construction as well as construction relating to areas such as energy, utilities, and cell phone towers).

Overall growth in net earnings in the manufacturing sector was relatively slow in 2015 but there were some notable exceptions. Kentucky saw rapid growth in durable goods manufacturing, mainly driven by automobile production, while Louisiana saw a sizeable increase in earnings from production of nondurable goods, mainly chemicals, an industry clearly benefitting from low energy prices. Texas saw a decline in earnings in the durable goods segment of manufacturing, which is consistent with what was a sizeable decline in employment amongst producers of energy and oil field equipment. Growth in total labor earnings in leisure & hospitality services and, to a lesser extent, retail trade was broad based geographically, reflecting not only rising payrolls in these industries but also higher wages in many places, with several employers in these industry groups voluntarily raising wages for their workers across the board while others did so with less enthusiasm in the wake of legislated increases in minimum wages. Earnings in business & professional services rose smartly across most states, and the U.S. as a whole, in 2015, which reflects rising outlays on things such as advertising, legal services, architectural services, and support functions for corporate headquarters. One question for 2016 is the extent to which growth in this industry group will be sustained given an overall weak pricing environment and growing pressure on corporate profit margins. The sharp decline in net labor earnings in the mining industry in the footprint in 2015 was mainly concentrated in Louisiana and Texas, though it is worth noting that growth in energy-related earnings was a prime driver of total earnings growth in these states over the 2009-14 period.

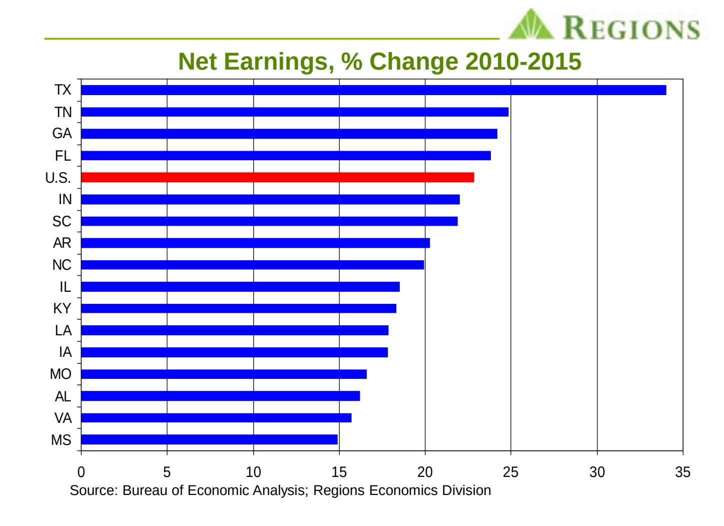
It was noted above that transfer payments accounted for an outsized share of Louisiana's growth in total personal income in 2015, with the bulk of rising transfer payments coming in the form of higher Unemployment Insurance (UI) payouts. In the Regions footprint, Iowa, Louisiana, and Texas were the three states which saw UI benefits rise in 2015 – in Louisiana and Texas mainly due to the energy sector and related industries. UI benefits fell by 5.4 percent for the Regions footprint as a whole and by 6.6 percent nationally in 2015. Keep in mind these declines in 2015 came on the heels of much steeper drops over the prior few years from what was an unprecedented peak level of UI payouts associated with the deep and painful 2007-09 recession. Obviously UI benefit payouts will rise and fall as labor market conditions warrant, but nonetheless we thought it of interest to show the relationship between the two for the Regions footprint as a whole, which is done in the chart to the side. While not back to full health, the labor market is clearly far healthier than has been the case for some time, but note falling UI benefits reflect not only fewer people claiming UI benefits for the first time but also people running off the UI benefit roles as they hit the time limit on eligibility. These time limits have been shortened considerably from what were extended runs during the worst of the labor market weakness stemming from the recession.



We noted above the significance of understanding the sources of income, and income growth, as a means of gaining more insight into underlying economic trends. In other words, while a dollar may be a dollar, each dollar of income is not necessarily the same. The chart to the side shows 2015 personal income broken down into four main components – net labor earnings, income from dividends, interest, and rents, Social Security benefits, and all other transfer payments (things such as Medicare, Medicaid, and private sector retirement benefits) – for each state in the Regions footprint and the U.S. as a whole. While the chart is based on 2015 personal income, the relative shares in any given state would be little changed were we to have used multi-year averages instead. One thing that jumps out from the chart is the composition of personal income in Florida. Net labor earnings accounted for only 54.1 percent of total personal income in Florida in 2015, compared to 64.1 percent for the U.S. and 63.6 percent for the footprint as a whole, while at 25.7 percent income from dividends, interest, and rents accounted for a significantly above-average share of Florida's total personal income (compared to 18.5 percent nationally and 18.2 percent for the footprint as a whole). This of course is mainly a reflection of Florida's demographics, with a well above-average share of the population comprised of retirees drawing investment income. In Texas, net labor earnings accounted for 69.3 percent of total personal income in 2015, far and away the highest share of any state in the footprint and despite the significant decline in net labor earnings in the energy industry. Transfer payments comprised above-average shares of total personal income in Alabama, Arkansas, Kentucky, and Mississippi.



This is significant in that some forms of what are booked as transfer payments, such as Medicaid benefits, do not reflect actual payments to individuals but are designated for providers of specific services, while those transfer payments made directly to individuals are typically spent on necessities such as food, clothing, and shelter. In other words, there is less room in household budgets for discretionary spending in those states that are more reliant on transfer payments than in those states in which labor earnings account for larger shares of total personal income. This of course also extends to the demand for credit. And, while it is true the mix of jobs in a given state matters, i.e., large clusters of low-earning jobs don't necessarily translate into significant discretionary spending, on the whole labor earnings and investment income are more supportive of broader economic activity than are transfer payments.



Finally, we thought it would be interesting to look at the growth in net labor earnings over the past several years to see how the individual states have fared since the end of the 2007-09 recession. To some extent, the states which have seen the fastest job growth over this time period should be expected to have also seen the fastest growth in net labor earnings, but this is another instance in which the mix of jobs being added in an economy comes into play. As seen in the chart to the side, Texas has far and away posted the fastest growth in net labor earnings, as the state has also posted the most rapid job growth, by a wide measure, over this same period. Interestingly enough, net labor earnings in the mining industry grew faster than in any other industry in Texas over the 2010-15 period despite the sharp decline posted in 2015. This is a reflection of the extent to which energy was a driver of economic activity (job growth, income growth, construction, capital spending) in the early stages of this expansion, not just in Texas but more broadly, as housing and consumer spending were much slower to rebound. But, unlike many of the states in our footprint, Texas has not been unduly reliant on one single industry group, or even a few, to drive overall growth, as net labor earnings have grown at a rapid rate across the board.

Tennessee and Georgia have also seen solid gains in net labor earnings across the spectrum of private sector industry groups since the end of the 2007-09 recession. In Tennessee, construction, business services, and durable goods manufacturing have posted some of the strongest growth in net labor earnings, while in Georgia transportation & warehousing, business services, and leisure & hospitality services have been among the better performing industries. Florida too has seen fairly broad based growth in net labor earnings across private sector industry groups, though rapid job growth in areas such as leisure & hospitality services and retail trade, industries in which Florida has significantly above-average concentrations of employment, has acted as somewhat of a drag on growth in overall net labor earnings over the past several years.

Virginia's placement in the low end of the spectrum of growth in net labor earnings may seem surprising at first glance. But, keep in mind Virginia has significantly above-average concentrations of employment in industry groups with earnings that are well above average, specifically information services and business & professional services, that in recent years have either been shedding jobs (information services) or adding them at only a slow pace. To some extent, Virginia's business & professional services industry group is heavily tied to the Federal government (consultants, lobbyists, lawyers, and the like) and in recent years tighter lids on government spending growth weighed on spending in such areas. We will note that, however you wish to interpret it, in 2015 Virginia did see a healthy rebound in hiring and earnings in business & professional services.

In the other states faring poorly in terms of longer-term growth in net labor earnings, factors such as a low degree of industrial diversity, as in Alabama and Mississippi, or heavy losses in higher earning industry groups, as in Illinois, have weighed on growth in overall net labor earnings, while in Louisiana it is a combination of the two. It is worth bearing in mind, though, that even in many of the states with relatively slow growth in net labor earnings over the past several years, there can be pockets of growth, i.e., one or two industry groups that are generating significant growth, such as those states with a presence of motor vehicle manufacturing. But, the lack of significant economic diversity means there are fewer industries elsewhere in the economy to help sustain the growth of the dominant industry, while in many of these states poor demographic trends also act as a weight, primarily in the form of less construction activity (average earnings in construction are typically well above the overall average). In short, there is no quick solution to this issue and, as we have pointed out in other forums, a high degree of economic diversity and favorable demographic trends are the main drivers of above-average state and metro area economic performance over time.

Though not as timely as the employment data, the state level data on personal income are nonetheless useful in adding to our understanding of the underlying economic trends across the footprint. Hopefully this summary has helped illustrate this point.

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