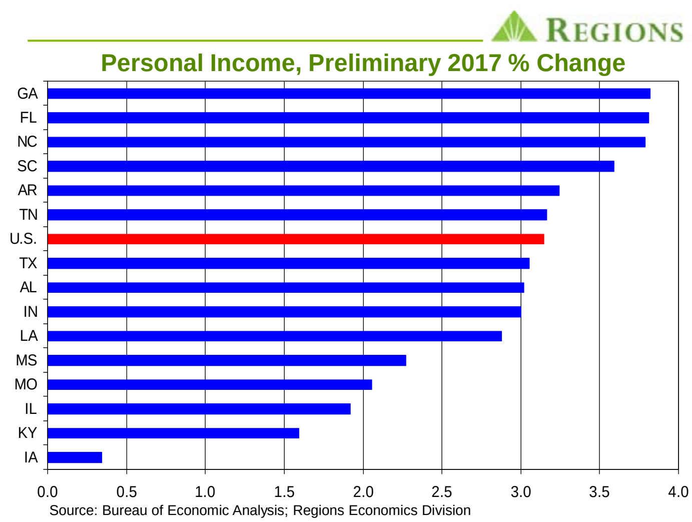
Regions Footprint: State Personal Income – Preliminary 2017 Data

The Bureau of Economic Analysis (BEA) has released its Q4 2017 and annual 2017 data on state level personal income. The data, however, are preliminary and subject to revision, with the revised annual data set for release in May. 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 in May. 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 3.01 percent in 2017, just below the 3.15 percent growth for the U.S. as a whole, As the chart to the side shows, there is considerable variance in growth amongst the individual states in the footprint. At 3.82 percent, Georgia saw the fastest growth in total personal income in 2017, with Florida (3.81 percent) and North Carolina (3.79 percent) nipping at its heels. Sure, for the more egalitarian of you, rounding to just one digit beyond the decimal point yields a three-way tie for first at 3.8 percent if you prefer. There is no such ambiguity at the other end of the spectrum, with the 0.34 percent growth in Iowa far and away the slowest in the Regions footprint.

The data on personal income tend to line up, though not perfectly, with the data on nonfarm employment. From the revised 2017 employment data, we know Texas, Florida, Georgia, North Carolina, and South Carolina posted the most rapid job growth in the Regions footprint in 2017, with Arkansas, Indiana, Kentucky, and Louisiana registering the slowest employment growth. Again, the mapping between income growth and growth in nonfarm employment is not perfect, as one must account for average earnings in the industries posting the fastest, and slowest, growth in employment, the share of total personal income accounted for by farm income, and non-wage income, such as income from interest and dividends. All of these factors play into growth of total personal income for a given state or metropolitan area.

For instance, the preliminary data show a 35.85 percent decline in farm income in Iowa in 2017, significantly larger than the 6.58 percent decline for the U.S. as a whole. As farm income accounts for a higher share of total personal income in Iowa than is the case for the U.S. as a whole, a decline of this magnitude can easily be a material drag on growth in total personal income. additionally, the preliminary data show a double-digit decline in construction earnings in Iowa in 2017. But, we'll again express reservations about putting too much stock in the preliminary data on earnings by industry, as a number of elements in the preliminary data stand out to us as not adding up with other data, particularly the employment data. For instance, the preliminary 2017 data show farm income rose, in some cases significantly, in many states in the Regions footprint, to the point that for the footprint as a whole, farm income rose in 2017 despite the sizeable decline in Iowa, and this is at odds with the national-level data. Additionally, the preliminary 2017 data show a third consecutive annual decline in earnings in the mining & natural resources industry group, which is contrary to what the revised employment data show to be the first increase in employment in this industry group since 2014. Texas and Louisiana account for the bulk of earnings in this industry group in the Regions footprint and as both added jobs, even if just barely in Louisiana, in this industry group in 2017, it is reasonable to expect the revised personal income data to show an increase in earnings in mining & natural resources.

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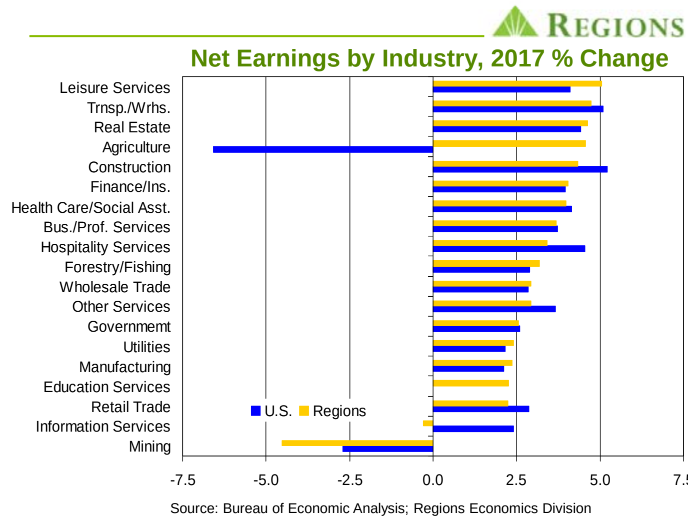
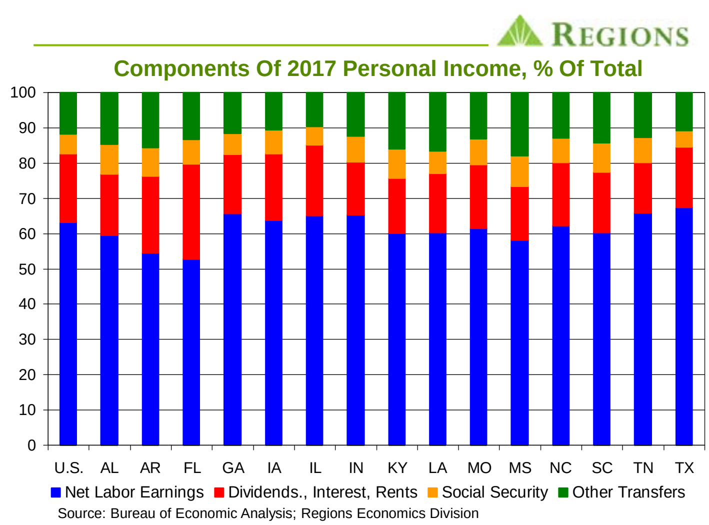
With these (and others not touched on here) caveats in mind, we offer the chart to the side to simply compare the results in the preliminary 2017 data on earnings by industry group for the Regions footprint and the U.S. as a whole. In the Regions footprint, earnings in the leisure services group grew by 5.05 percent in 2017, more than any other industry group. Keep in mind that many workers in this industry group, along with others in hospitality services and retail trade, benefitted from higher minimum wages in many areas in 2017 and others benefitted from some large firms in these industry groups voluntarily implementing higher entry level wages (which tend to work their way up the seniority chain). The point here is that if growth for some of these industry groups seems a bit outsized, that is not necessarily the case and the revised data may yield the same results. Growth in earnings in transportation/warehousing earnings is consistent with the rapid job growth in this industry group that is a prime beneficiary of changes in consume shopping patterns that increasingly skew towards online shopping (you see what we did there, right, "prime"?).



Keep in mind that when we refer to industry level earnings, we are referring to aggregate earnings rather than average hourly earnings. In other words, aggregate earnings account for how many people are working within a given industry group, how many hours they work, and what they earn for each hour worked. In the case of leisure & hospitality services, materially higher wages along with a sizeable increase in employment can yield large changes in aggregate earnings in an industry group in which hourly earnings are still below average, as is the length of the average workweek. Conversely, information services and utilities are two of the industry groups in which average hourly earnings are the highest, both significantly above average, but even so either lackluster job growth or a decline in the level of employment can serve as a material drag on growth in aggregate earnings. Again, we'll put more stock in the revised data on earnings by industry, but note that in some cases seemingly anomalous results make perfect sense when put in proper context.



At the same time, however, it is also important to account for non-labor sources of income. For the Regions footprint as a whole, labor earnings accounted for 62.24 percent of total personal income in 2017, compared to the U.S. average of 63.25 percent. Labor earnings easily accounted for a smaller share of total personal income (52.77 percent) in Florida than in any other state in the footprint, yet Florida posted the second fastest growth in total personal income in the footprint in 2017. Investment income, i.e., income from dividends and interest, accounted for 26.97 percent of total personal income in Florida in 2017, well ahead of the footprint (19.01 percent) and national averages (19.38 percent). 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.

That several other states see Social Security benefits account for a larger share of total personal income than is the case in Florida (7.00 percent) simply shows the significance of investment income to Florida residents. Accounting for all forms of transfer payments, not just Social Security, shows Mississippi was the most reliant on transfer payments – 26.58 percent of total personal income – in 2017, far above the national average of 17.37 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.

As noted at the outset, the preliminary data offer some insight into trends in personal income growth, but are nowhere as valuable as the revised data, particularly when trying to reconcile patterns across various data series. When the revised personal income data are released in May, we'll do a more thorough analysis, but in the interim thought this brief snapshot would be of at least some benefit.

Total Personal Income, Regions Footprint

	Contribution to 2017 change in total personal income, % points				
STATE	Net Labor Earnings	Dividends, Interest, Rents	Transfer Payments	% change in Total Personal Income, 2017	% change in Total Personal Income, 2010-2017
Alabama	59.59	17.19	23.22	3.02	20.85
Arkansas	54.48	21.74	23.78	3.24	31.89
Florida	52.77	26.97	20.26	3.81	35.06
Georgia	65.61	16.88	17.51	3.82	34.11
Iowa	63.75	18.92	17.33	0.34	24.99
Illinois	65.17	20.01	14.82	1.92	26.26
Indiana	65.33	15.11	19.56	3.00	29.32
Kentucky	60.13	15.68	24.18	1.59	22.17
Louisiana	60.27	16.84	22.89	2.88	20.41
Missouri	61.43	18.21	20.36	2.05	21.19
Mississippi	58.21	15.22	26.58	2.27	19.45
North Carolina	62.25	17.89	19.86	3.79	31.72
South Carolina	60.25	17.18	22.57	3.59	36.22
Tennessee	65.87	14.19	19.94	3.17	31.18
Texas	67.43	17.22	15.34	3.05	38.90
U.S.	63.25	19.38	17.37	3.15	31.73

Source: Bureau of Economic Analysis; Regions Economics Division

2017 data are preliminary

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