ECONOMIC UPDATE
REGIONS
September 2018

2017 Median Household Income And Poverty Rates: Regions Footprint

The U.S. Census Bureau recently released data on poverty rates and median household income for 2017. Median household posted another solid gain in 2017, building on similarly solid gains in both 2015 and 2016. To some extent, however, the growth in median household income seen in each of the past three years is making up for lost time after significant declines during the 2007-09 recession and subsequent slow growth in the earlier years of the current economic expansion. The growth in median household income over the past three years 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. According to the Census Bureau, median household income rose by 4.7 percent in 2017, the largest increase since, ironically enough, 2007. 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 median household income exhibited such sturdy growth. At the same time Census released its estimates of 2017 median household income, they also released data on the incidence of poverty, and the data show the overall poverty rate declined once again in 2017. 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 ($2012)

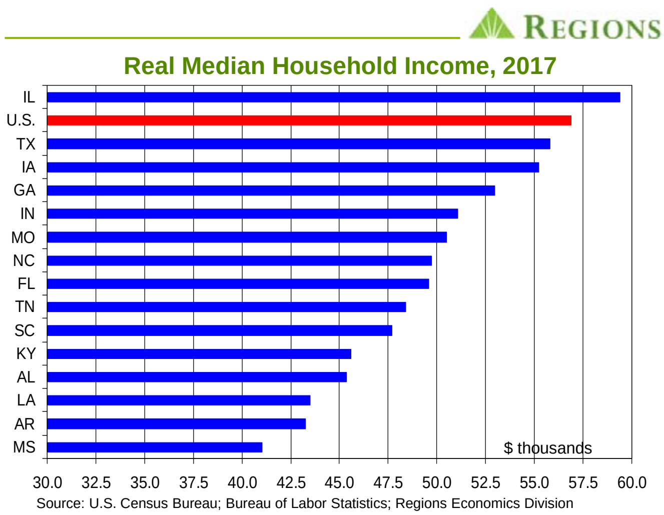
STATE	Level, 2017	2017 % change	Cumulative % change, 2015-17	2017 as % of prior peak
Alabama	$45,368	2.23	8.72	100.14
Arkansas	$43,243	1.67	7.64	101.55
Florida	$49,583	1.62	7.30	94.84
Georgia	$52,966	3.08	10.13	97.91
Iowa	$55,217	2.33	5.64	106.17
Illinois	$59,385	1.54	6.23	99.46
Indiana	$51,079	1.77	6.14	96.08
Kentucky	$45,605	1.88	8.97	103.29
Louisiana	$43,503	0.44	0.49	93.68
Missouri	$50,510	1.75	7.27	101.27
Mississippi	$41,037	2.44	6.26	98.10
North Carolina	$49,732	2.48	9.59	100.62
South Carolina	$47,675	0.39	8.23	96.82
Tennessee	$48,401	3.92	11.82	103.58
Texas	$55,816	2.85	8.09	105.04
U.S.	$56,881	2.90	8.80	105.21

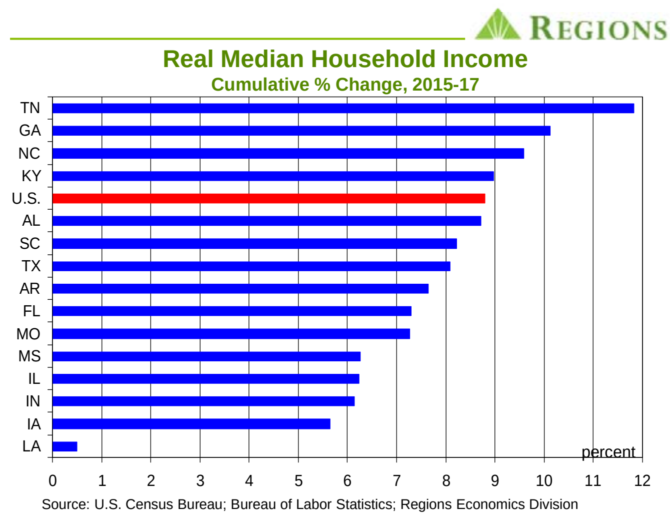
Source: U.S. Census Bureau; Regions Economics Division

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 two different measures of 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 is 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 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 between 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.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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 noncash 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.

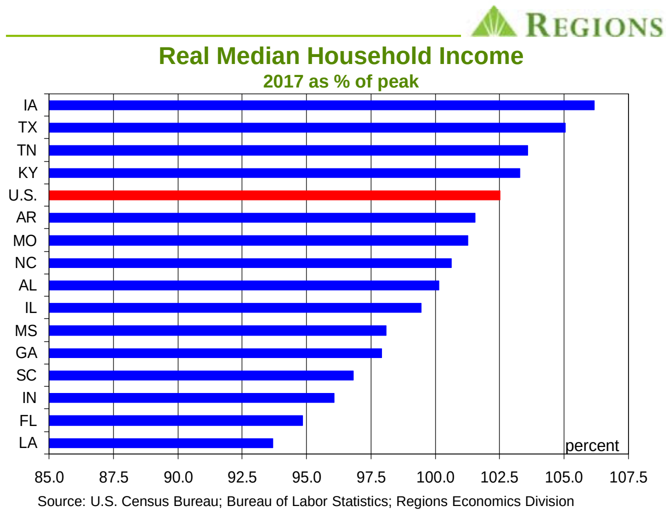




As has been the case nationally, growth in median household income in the Regions footprint had been painfully slow over much of the current expansion, but has picked up markedly over the past three years, at least in most of the states in the footprint. As seen in the chart above, Illinois is the only state in the Regions footprint in which the level of real median household income is above the U.S. median, while the level of real median household income in Mississippi is 72.1 percent of the national level. Tennessee (3.92 percent) posted the fastest growth in real median household income in 2017, with Georgia (3.08 percent) second, while South Carolina (0.39 percent) and Louisiana (0.44 percent) posted the slowest growth – the difference here is South Carolina saw a sizeable increase in real median household income in 2016 while Louisiana saw real median household income decline in 2016. Over the 2015-17 period, Tennessee, Georgia, and North Carolina saw the largest cumulative increase in real median household income, with Louisiana barely seeing a gain over the three-year period, which to a large degree reflects the extent to which the downturn in the energy sector impacted the state economy. This was also the case in Texas, though given the higher degree of industrial diversity in Texas relative to Louisiana the drag from the energy sector was not nearly as severe in Texas.

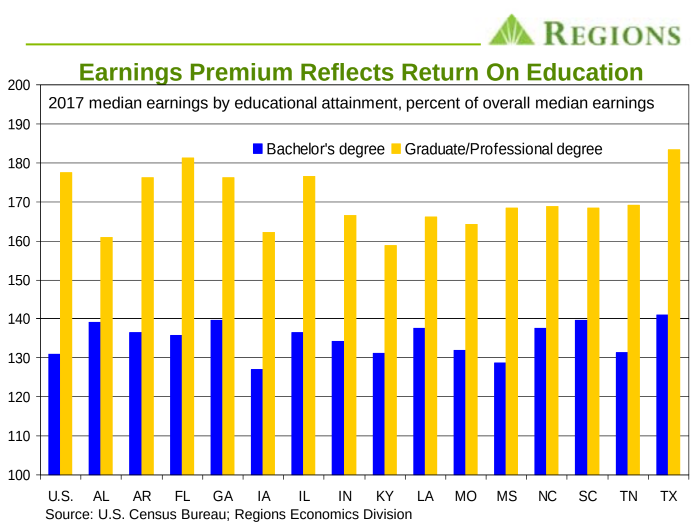
There are a number of factors that impact the level and rate of growth of median household income. One relevant factor is the population split between those living within and outside of metropolitan statistical areas, which is a particularly relevant factor across the Regions footprint. Median household 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.

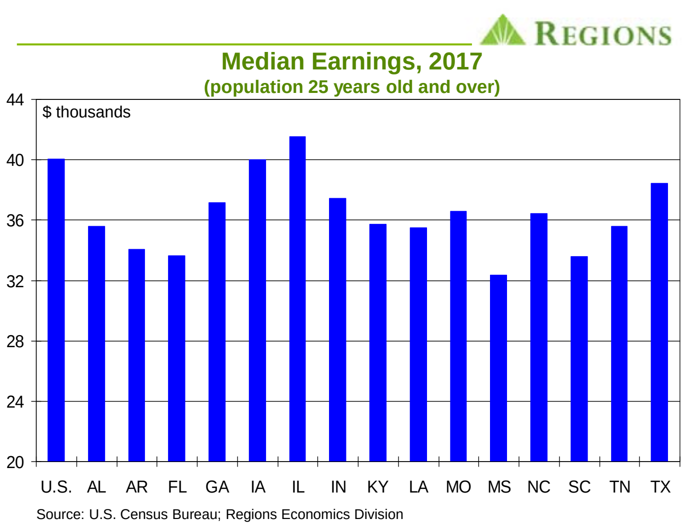
Clearly, the sheer brutality of the 2007-09 recession took a heavy toll on median household income across the entire nation. That total nonfarm employment continued to decline until January 2010 and then increased at a highly uneven pace, across geographies and across industry groups, prolonged the drag 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, within the Regions footprint and across the U.S. That said, the pace of wage growth has picked up over the past few quarters and should accelerate further over coming quarters, which should mean continued solid gains in median household income over the remainder of the current expansion which, at present, we expect to endure at least into 2020.



We offer the above discussion as a means of putting the chart to the side in proper context. The chart shows 2017 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, seven of the 15 states in the Regions footprint have yet to see real median household income return to the prior cyclical peak. 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 seven 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 2007-09 recession.

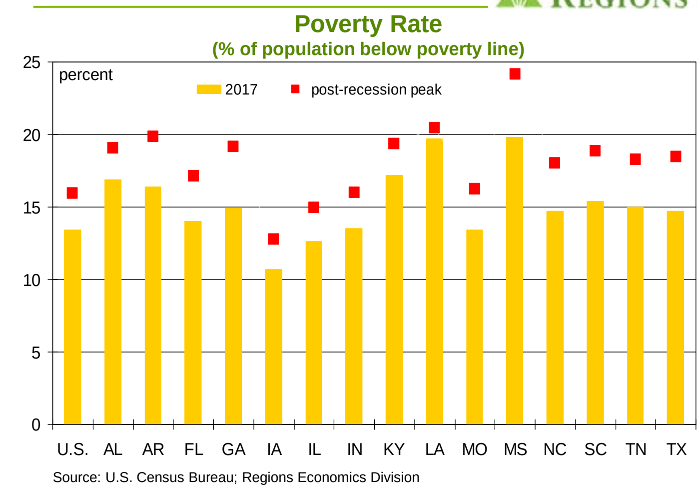
That real median household income has taken so long to recover from the 2007-09 recession is a good, even if somewhat discomforting, illustration of the extent to which structural shifts in the economy have powerful and long-lasting impacts for those on the wrong side of these shifts. For instance, increased 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 – the recent string of modest gains 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.

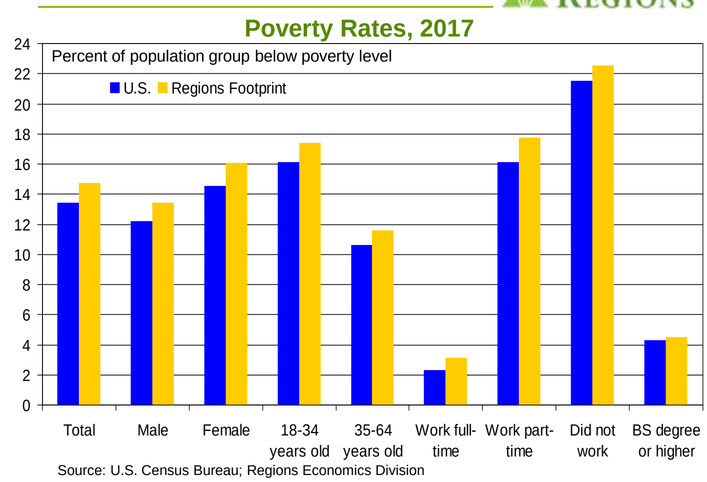




More broadly, the "tech revolution" of the 1990s and early 2000s has increased the premium attached to skilled and more highly educated labor, so generally lower concentrations of adults with Bachelor's degrees or higher also help account for patterns in median household income within parts of the Regions footprint. As can be seen in the first chart above, 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 in 2017 median earnings of those with a Bachelor's degree were 41.08 percent above the overall median level of earnings, while median earnings for those with a graduate or professional degree were 83.28 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 narrowed over the past two years, which goes to our point about the fruits of the current expansion finally having reached 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 2017, the ACS data show 14.0 percent of the U.S. population was living below the poverty line. Though poverty rates decreased across all broad demographic cuts in 2017, 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 2017 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. Louisiana's poverty rate increased in 2016 which, as noted above, is a reflection of the extent to which weakness in the energy sector filtered through much of the state economy. As such, while Louisiana's poverty rate fell in 2017, it is 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 fall further 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 solid gains in median household incomes over the past three years show 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 2018 data to show further improvement, but given the current expansion is now in its tenth 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.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com