

State Personal Income

First Quarter of 2006

By David G. Lenze

PERSONAL income in the United States grew 1.4 percent in the first quarter of 2006, slower than the 1.9-percent increase in the fourth quarter of 2005 but at a pace equal to the average of the last 3 years (table 1). Most nonfarm state growth rates were clustered around the national average, while farm state growth rates varied more (chart 1). Double-digit increases in farm income made South Dakota the fastest growing state in the Nation, while double-digit declines in farm income made Iowa's growth slower than in all but one state.

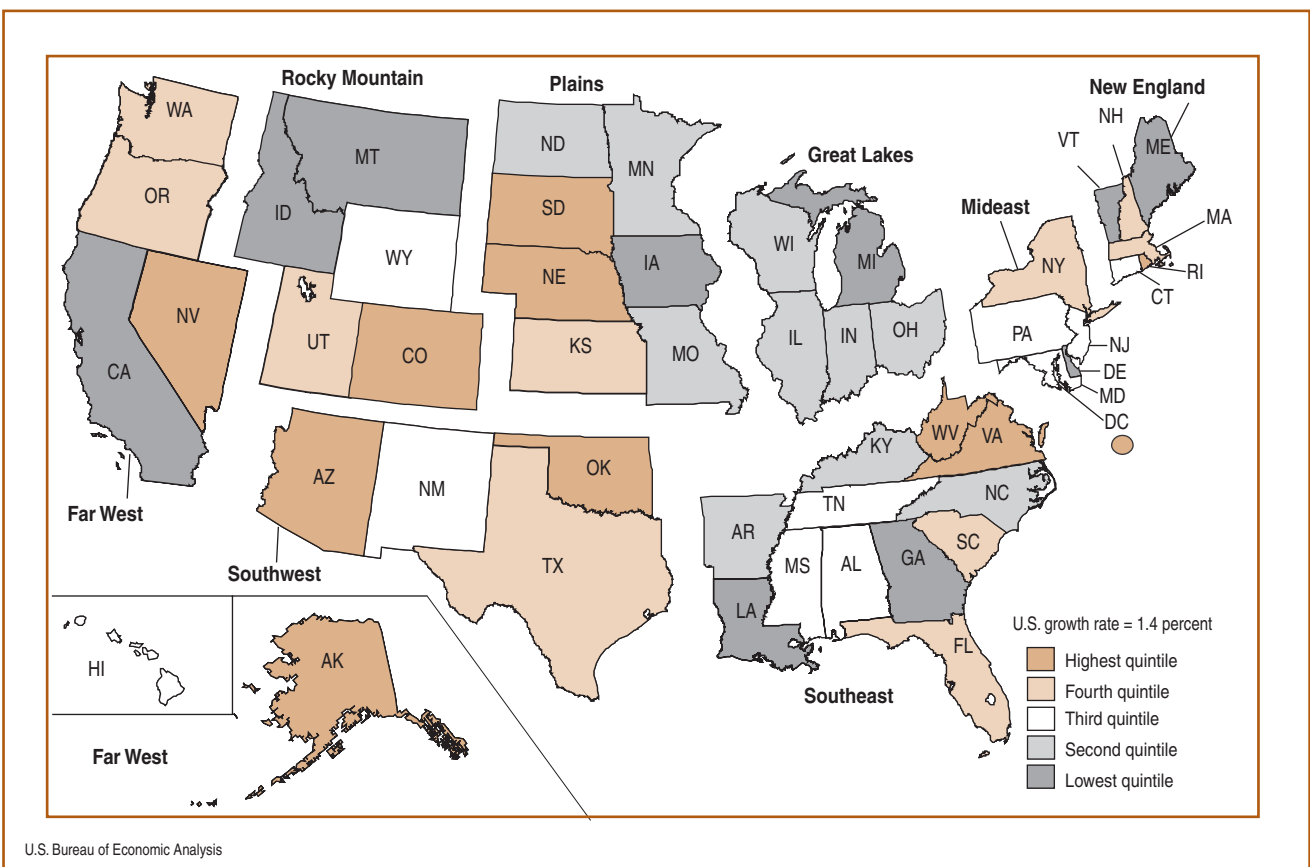
Components of personal income

The slowdown in personal income growth nationally can be attributed to a slowdown in property income, which more than offset accelerations in net earnings growth and transfer receipts.

Property income. Nationally, income from dividends, interest, and rent increased only 0.7 percent in the first quarter of 2006 after a 9.3-percent rebound in the fourth quarter of 2005. The large fourth-quarter rebound reflected third-quarter levels that were severely reduced by Hurricanes Katrina and Rita. Excluding Alabama, Mississippi, and Louisiana, whose rental income growth was most distorted by the hurricanes, property income grew 2.4 percent in the fourth quarter of 2005.

Earnings. Net earnings growth accelerated to 1.3 percent from 1.0 percent in the first quarter. Professional services (such as legal and engineering services), finance, health care, administrative services (such as employee leasing and temporary help services), and construction accounted for at least half of the earnings growth in the first quarter for the United States and all

Chart 1. Personal Income: Percent Change, 2006:I



regions except the Southwest (table 2 and chart 2). In contrast, in the fourth quarter of 2005, just four industries—state and local government, construction, professional services, and real estate—accounted for almost half of earnings growth.

First-quarter earnings growth was moderated slightly by a decrease in real estate earnings, a response to the continuing decline in house sales and sales commissions.¹ Earnings growth was also moderated by declines in farm earnings. Lower crop and livestock prices reduced the cash receipts component of farm earnings across most of the country. This reduction was reinforced by falling Government subsidies. As a result, farm sector earnings reduced personal income by a percentage point or more in Iowa, Idaho, and Montana.

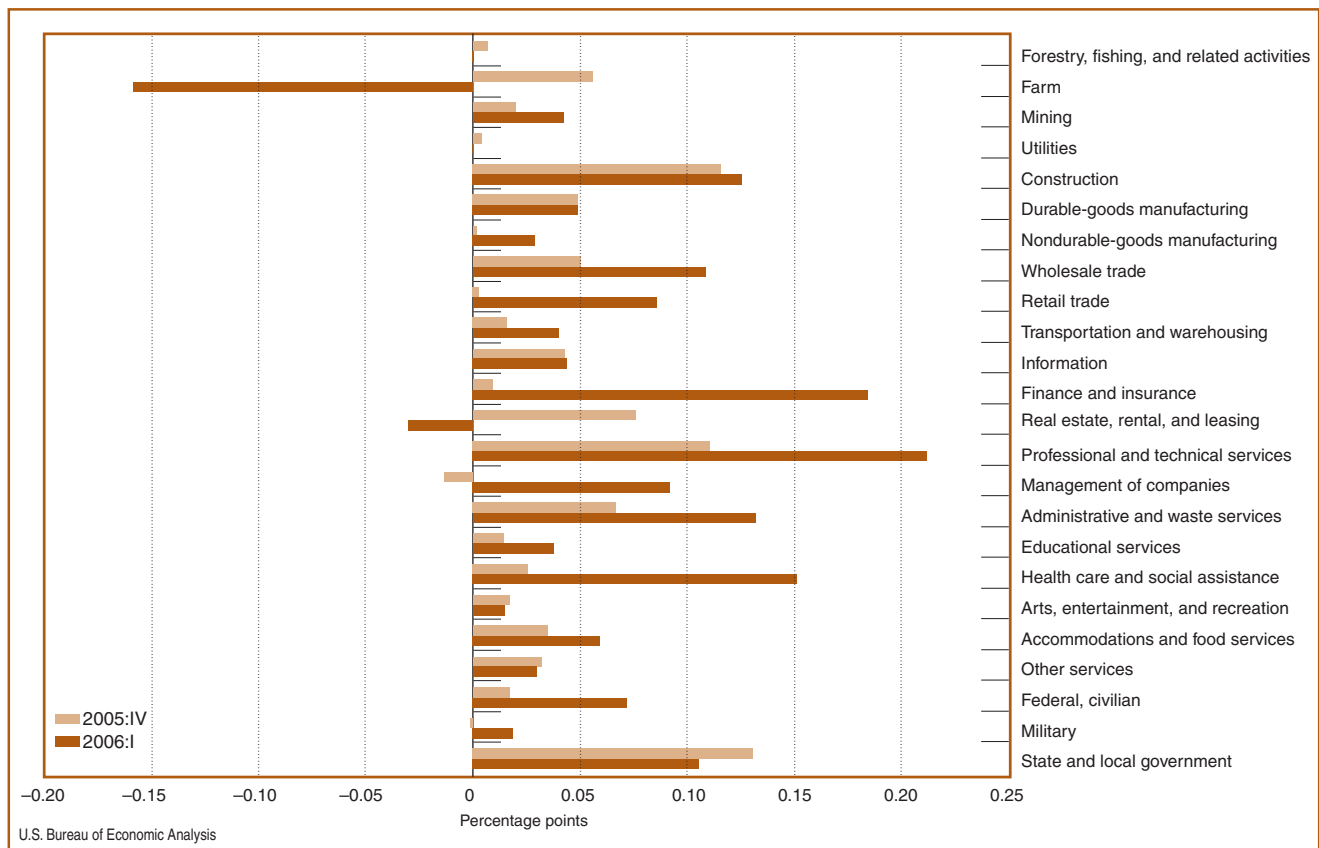
1. In the fourth quarter, proprietors' income without the capital consumption adjustment (CCAdj) and the inventory valuation adjustment (IVA) also fell in the real estate industry, mirroring the sales decline. However, the fall was masked in proprietors' income with CCAdj and IVA (and in real estate earnings) by a higher CCAdj (the difference between depreciation on an historical-cost basis as used in source data and depreciation on a replacement-cost basis as used in personal income accounting) and by a slight uptick in wages.

In Colorado, South Dakota, Nebraska, Kansas, Texas, Tennessee, Florida, Mississippi, and Louisiana, farm earnings rose notably in the first quarter. The increase in the latter three states can be attributed to a recovery from last year's hurricanes. In the other six states, rising farm earnings was largely accounted for by sharp declines in production expenses. In South Dakota, the gain in farm earnings added almost a percentage point to that state's personal income growth.

In Delaware, earnings fell 2.8 percent (more than \$1 billion), enough to cause a 1.1-percent decline in personal income. In fact, Delaware was the only state in which personal income declined in the first quarter. Almost the entire decline stemmed from the finance industry and was attributable to a one-time exercise of stock options in the fourth quarter that was associated with a corporate acquisition. In contrast, New York's and Connecticut's finance industries contributed 0.5 percentage point to their earnings growth. Nationally, the finance industry contributed 0.2 percentage point to earnings growth.

Several industries had substantial impacts in particular locations, even though these industries did not significantly affect national personal income growth.

Chart 2. Contributions to the Percent Change in U.S. Earnings by Industry



For example, in most states, the Federal Government contributed little to earnings growth, less than 0.1 percentage point. However, in the District of Columbia, it contributed 0.8 percentage point, reflecting first-quarter civil service pay raises. Together with professional services, it accounted for more than half of the District's 2.2-percent earnings growth. Mining contributed a mere 0.04 percentage point to earnings growth nationally; however, it contributed 0.5 percentage point in Alaska and 1.1 percentage points in Wyoming (more than twice as much as all other industries combined).

Transfer receipts. Transfer receipts increased 2.4 percent after declining 0.9 percent. Transfer receipts were boosted by the new Medicare prescription drug benefit and cost-of-living adjustments to programs such as social security.

Personal income by region

Personal income in the Southwest region (Texas, Oklahoma, New Mexico, and Arizona) grew 1.7 percent in the first quarter, faster than any other region. The Southwest has led the rest of the country in personal income growth for more than a year now. Continued strong growth in the region's mining industry gave it the edge over other regions in the first quarter. The farming sector, which largely escaped the huge declines recorded in other states, also boosted growth.

Personal income in the Great Lakes Region (Michigan, Ohio, Indiana, Illinois, and Wisconsin) grew 1.1 percent, slower than any other region. Personal income growth in this region has generally lagged growth in the rest of the country for the last 3 years. The relatively sluggish gains in first-quarter earnings were pervasive across most industries.

Tables 1 and 2 follow.

