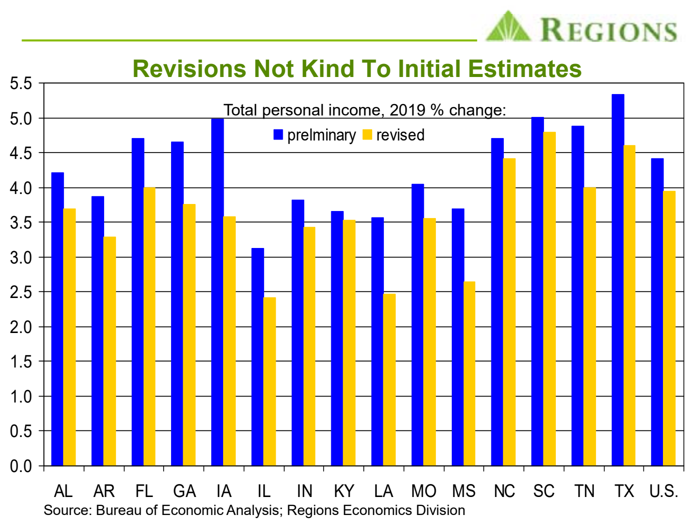
ECONOMIC UPDATE
REGIONS
October 6, 2020

Q2 2020 State Personal Income: Regions Footprint

By this point no one needs to be reminded of the steep toll the COVID-19 pandemic and the efforts to stem its spread have taken on the U.S. economy. It is also clear that, after bottoming in late-April, the economy has been healing, though to sharply different degrees across industries and across geographies. The same is true of the states and metro areas within the Regions footprint, which we've been chronicling with our monthly updates on labor market conditions within the footprint. But, with the Bureau of Economic Analysis (BEA) only recently releasing the state-level personal income data for Q2 2020, we thought it worth looking at the economic landscape through a different lens. In addition, the Q2 2020 personal income data incorporate comprehensive revisions to the recent historical data, which include material downward revisions to prior estimates of personal income in 2019. So, this document serves dual purposes – highlighting some of the main revisions to the recent historical data, and illustrating how the pandemic, and the policy responses, have altered the path of personal income for the states in the Regions footprint. Note that at this point there is no equivalent data on the metro area level, so unlike our monthly write-ups of the labor market data, this discussion of personal income is limited to the state-level data.



As to the revisions to the initial estimates of 2019 personal income, those revisions were not kind, as the chart to the side shows. The revised data show growth in total personal income in 2019 was slower than was originally estimated in each state in the Regions footprint and for the U.S., and in some cases the downward revision was significant. It should be noted that prior estimates of total personal income in 2015, 2016, and 2017 were revised higher in this round of revisions to the recent historical data, while the prior estimates for 2018 and 2019 were revised lower. The net effect of all revisions leaves the level of total personal income in 2019 higher than the original estimate in Alabama, Florida, Georgia, Indiana, South Carolina, and Texas, and lower in the remaining states and for the U.S.

Focusing on the revisions to the 2019 data, the main factor behind the downward revision to total personal income was the downward revision to the initial estimate of wage and salary earnings, which account for the largest share of total personal income. Keep in mind that the data on wage and salary earnings published over the course of any given year are sample-based estimates, which are ultimately benchmarked to the Quarterly Census of Employment and Wages (QCEW), which is a comprehensive accounting of data on employment and earnings of all workers covered by state unemployment insurance laws. As can be imagined, the QCEW data give a much more complete and accurate picture of employment and earnings but come with a considerable lag, hence the delay in the arrival of the revisions to the initial estimates of 2019 labor earnings. It is also worth noting that the earnings data reported by the BEA in the personal income data are aggregate earnings, or, the product of the number of people working, the numbers of hours they work, and what they earn for each hour worked. Given the limitations of the data available on the state and metro area levels, while we can track the number of people working we are unable to track the latter two components, particularly on an industry by industry basis, so it is not always clear what drives the revisions to the estimates of aggregate earnings.

But, on that basis, we do know that the original estimates of farm income in 2019 were revised significantly lower, the importance of which varies from state to state; Georgia, Iowa, Mississippi, and Missouri were impacted most heavily. As for earnings across nonfarm industry groups, there were sharp downward revisions to prior estimates of earnings in mining and natural resources (Louisiana and Texas were impacted the most), finance, leisure and hospitality services, and health services. On the flip side, there were meaningful upward revisions to prior estimates of earnings in transportation/warehousing, retail trade, utilities, and construction. Obviously, each state's exposure to the individual industry groups shaped the revision to overall wage and salary earnings, but in most states aggregate

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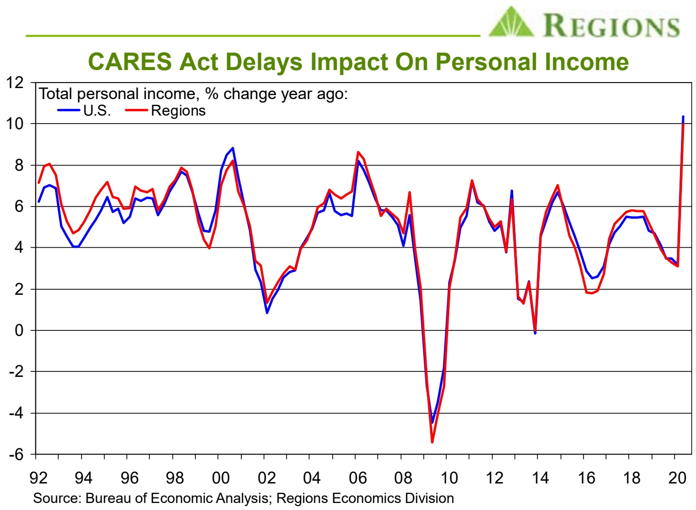
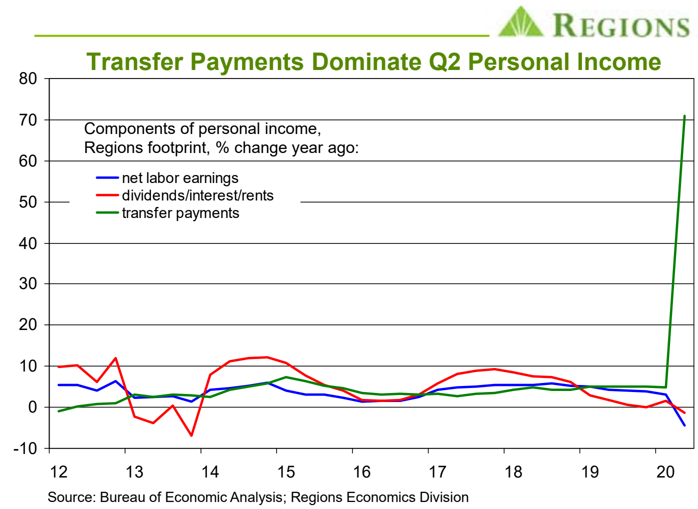
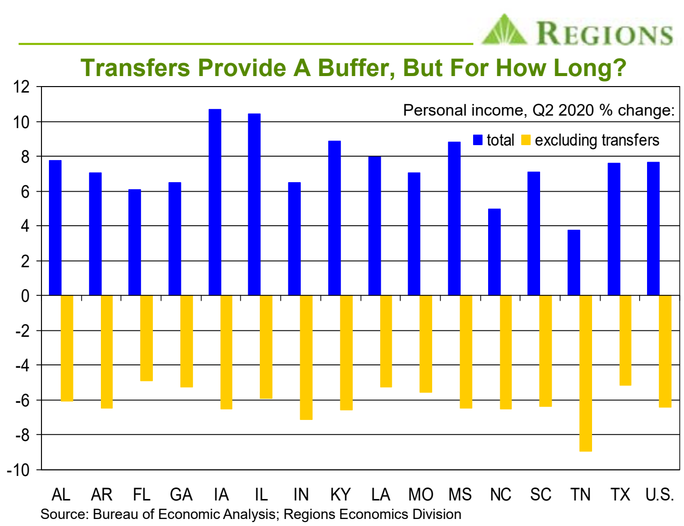
wage and salary earnings were revised lower. There were also revisions to the other components of personal income that impacted the revision to total personal income. For instance, income from dividends, interest, and rents accounts for a much higher share of total personal income for Florida than for the other in-footprint states and for the U.S. The initial estimates of income from these sources were revised down for each in-footprint state and for the U.S., but the hit to total personal income was more severe for Florida. Additionally, the initial estimate of transfer payments was revised lower for each in-footprint state and for the U.S., which also contributed to the downward revision to the initial estimate of total personal income. The impact of this change was felt the most in Mississippi, as transfer payments account for a much higher share of total personal income in Mississippi than is the case in the other states.



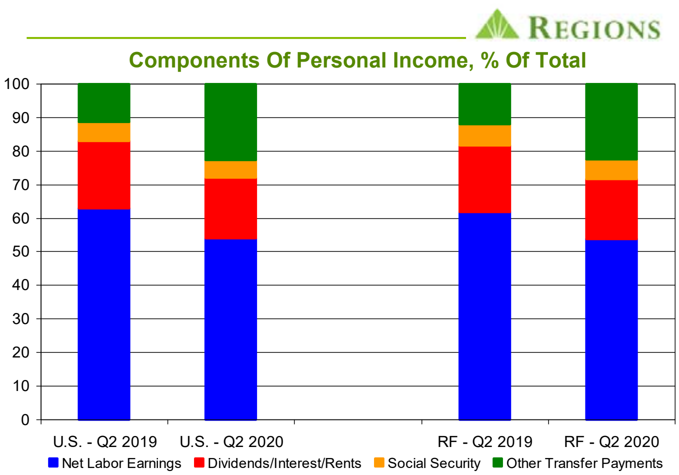


As for the 2020 data, total personal income for the Regions footprint rose by 1.0 percent in Q1 2020, matching the increase for the U.S. Note that these are smaller than the typical Q1 increases, reflecting the decline in personal income in March as nonfarm payrolls fell by 1.373 million jobs. While "typical" monthly increases in January and February were more than sufficient to push total personal income and aggregate labor earnings higher for Q1 as a whole, the low level as of March set the stage for significant declines in Q2. That was indeed the case for labor earnings, which for the Regions footprint as a whole fell by 6.9 percent in Q2 (for a year-on-year decline of 4.4 percent); nationally, labor earnings fell by 7.7 percent in Q2, yielding a year-on-year decline of 5.2 percent. But, as can be seen in the above charts, despite the hit to labor earnings, total personal income actually increased in Q2, reflecting the magnitude of the financial aid to households provided by the CARES Act. Between the Economic Impact Payments (EIP) and the supplemental unemployment insurance (UI) benefits, the CARES Act fueled a surge in total transfer payments in Q2, pushing total personal income higher despite the decline in labor earnings. Total personal income rose by 7.2 percent for the footprint as a whole in Q2, which yielded a year-on-year increase of 10.0 percent, while for the U.S. total personal income rose by 7.6 percent in Q2, leaving it up 10.4 percent year-on-year.

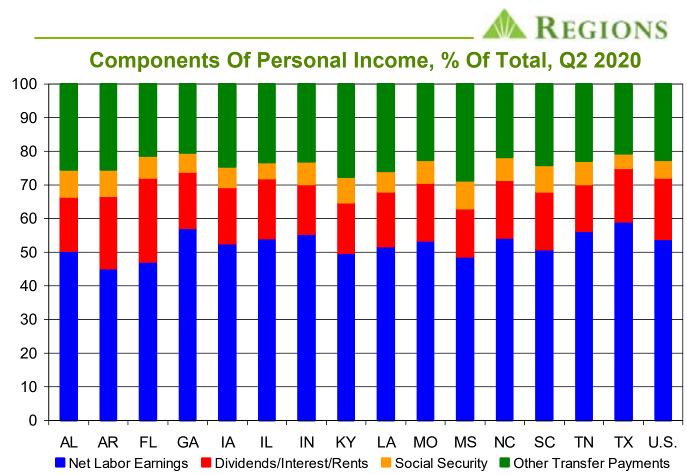


The chart to the side shows the impact of the surge in transfer payments on total personal income for each state in the Regions footprint in Q2. The declines in personal income excluding transfer payments (illustrated by the gold bars) are more reflective of the disruption in economic activity resulting from the pandemic and the efforts to stem its spread, while the increases in total personal income (illustrated by the blue bars) reflect the magnitude of the policy response. It should also be noted that, while payments from the EIP and supplemental UI benefits are booked as personal transfer payments, the effects of the Paycheck Protection Program (PPP) can be seen in nonfarm proprietors' income, which is a proxy for small business profits. Those loans originally made under the PPP which were converted into grants upon the recipients meeting specified conditions were credited to nonfarm proprietors' income upon conversion, which directly bolstered total personal income in Q2, and which will again be the case in the Q3 data.

Between the decline in labor earnings and the sharp increase in transfer payments, there was a meaningful shift in the composition of total personal income in Q2 2020. Also contributing to this shift was a decline in income from dividends, interest, and rents (DIR); for the Regions footprint, DIR income declined by 2.2 percent in Q2, matching the decline for the U.S. Florida saw a slightly larger decline, with DIR income down by 2.5 percent in Q2, compounding the effect on total personal income given the above-average contribution to total personal income from this source in Florida. Total unemployment insurance (UI) benefit payouts rose by over 2,300 percent for the Regions footprint as a whole (that's not a typo, even if we can't comprehend a 2,300 percent increase), reflecting both the magnitude of the increase in the number of people drawing UI benefits and the amount of those benefits being bolstered by the $600 per week in supplemental UI benefits provided by the CARES Act.



Source: Bureau of Economic Analysis; Regions Economics Division



Source: Bureau of Economic Analysis; Regions Economics Division

The first chart above illustrates the shift in the composition of total personal income, comparing the contributions made by the broad components in Q2 2020 to the contributions made by each in Q2 2019. Note that for both the U.S. and the Regions footprint the share of total personal income accounted for by labor earnings was much lower in Q2 2020, while the share accounted for by transfer payments other than Social Security benefits was much larger. The second chart above shows the composition of Q2 2020 total personal income for each of the in-footprint states. One thing that stands out is that Florida typically sees a smaller contribution from labor earnings than do the other states and the U.S, but in Q2 2020 Arkansas saw an even smaller contribution, with labor earnings accounting for 45.17 percent of total personal income. While transfer payments rose dramatically each state, Mississippi continued to see transfer payments make the largest contribution to total personal income – 28.66 percent – of any of the in-footprint states, as is typically the case.

In light of the fact that, as of this writing, it is still unclear whether, or when, Congress will come to terms on an additional round of aid for households and small businesses, it is useful to consider the path of personal income going forward. One thing to keep in mind is that the surge in transfer payments in Q2 led to a significant increase in household saving across all income levels. While the BEA does not report personal saving rates on a state-by-state basis, we know that as of August the personal saving rate for the U.S. stood at 14.1 percent, down from the Q2 peak but nonetheless considerably higher than the pre-pandemic norm. Additionally, we know from the Census Bureau's *Household Pulse Survey* that millions of households across the Regions footprint continue to draw on funds provided by the CARES Act to help facilitate spending. While these points may seem to suggest no additional aid is needed, keep in mind that job losses to this point have been highly concentrated amongst lower-skill, lower-earnings occupations, and people in this group were less likely to have had accumulated a significant degree of saving prior to being displaced from the labor market. As such, any buffer they were able to build up in the form of higher saving is not likely to last for very long absent their landing a new job.

At the same time, however, that the economy continues to add back jobs – nonfarm payrolls have risen by 11.4 million jobs over the past five months – has led to a revival in the growth of labor earnings, and this growth will help fill the void in personal income left by the drop-off in transfer payments. What this suggests, then, is that while there is clearly an argument to be made for Congress providing additional aid, there is also an argument that any such aid should be targeted at those still displaced from the labor market, as opposed to the blanket assistance provided under the CARES Act. Also, given the manner in which the BEA has accounted for PPP funds, the positive contribution to nonfarm proprietors' income, and in turn total personal income, will reverse, likely starting with the monthly data for December, and this drag will persist into the Q2 2021 data, making nonfarm proprietors' income look weaker than will actually be the case. In the months ahead, personal income excluding transfers will be the more reliable guide to the extent to which economic activity is recovering from the damage done by the pandemic and the efforts to stem its spread.

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