

## **Growth in Personal Income Picks Up Slightly for Maryland and the U.S.**

Growth in Maryland's personal income increased slightly in the third quarter of 2015, according to recently released data from the U.S. Bureau of Economic Analysis (BEA).<sup>1</sup> Adjusted for inflation and measured from the same quarter in the prior year, Maryland's personal income expanded by 4.1 percent in the third quarter of 2015, just above the (revised) 4.0 percent increase in the prior quarter and the second best growth rate over the last three and a half years. The 4.2 percent increase in the first quarter of 2015 was the fastest rate of increase for the state in nine and a half years (since the 2006:Q1 rate of 4.6%).<sup>2</sup> (See [Chart 1](#).) Solid gains in earnings by place of residence and increases in transfer payments (partly due to increased Medicaid payments from implementation of the Affordable Care Act) are behind the improving personal income picture in the first three-quarters of 2015.

### **Maryland still lagging U.S.**

Maryland's most recent personal income growth rate ranked 28<sup>th</sup> among the 50 states and the District of Columbia, better than all but one quarter between 2011:Q4 and 2014:Q4, but below the relative ranking of 2015:Q1 (21<sup>st</sup>) and 2015:Q2 (22<sup>nd</sup>).<sup>3</sup> Despite the improved picture for the state, however, Maryland continues to lag the nation as a whole, which grew at a 4.4 percent rate in 2015:Q3, the largest increase since the end of 2012. (See [Tables 1](#) and [2](#).) All in all, Maryland's personal income has now grown more slowly than the national rate for 20 out of the last 22 quarters, or for most of the last five years.<sup>4</sup> (See [Chart 1A](#).) During the last 22 quarters (which coincides with the resumption of sustained national growth beginning in 2010:Q2 after the declines of the post recessionary period), Maryland's personal income expansion has ranked as high as 22<sup>nd</sup> (2014:Q3) and as low as 47<sup>th</sup> (2013:Q3 and 2012:Q2). (See [Tables A and B](#) for quarterly personal income estimates, percent change and rankings by quarter, in current and constant 2009 dollars, back to 1969.)

The chief reason for Maryland's personal income gains being mostly below national rates is because of slower growth than the nation in earnings by place of residence (essentially income from work) as opposed to investment income or transfer payments (the other two components of personal income).

### ***Far West and Rocky Mountain Regions lead U.S.***

The Far West (6.0%) and the Rocky Mountain (4.8%) regions led the nation in personal income gains in 2015:Q3 and between the two had the five states with the fastest rates of personal

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<sup>1</sup> Release date December 21, 2015

<sup>2</sup> All quarterly percentage change calculations in this analysis are from the same quarter in the prior year in inflation-adjusted 2009 dollars.

<sup>3</sup> In 2014:Q3 Maryland's growth rate was ranked 22<sup>nd</sup>.

<sup>4</sup> In the 2010:Q1 Maryland's personal income fell by 0.4 percent, compared to a decline of 0.7 percent for the U.S. The last time Maryland's personal income growth rate exceeded the U.S. was in 2009:Q3, over five years ago, when the state's personal income expanded by 0.3 percent (ranked fifth in the U.S.) compared to a decline of 2.9 percent for the U.S. More recently, Maryland matched the national rate in 2015:Q1 (4.2%) and 2014:Q3 (2.8%).

income increases: California (6.2%, ranked 1<sup>st</sup>), Nevada (5.7%, ranked 3<sup>rd</sup>), Washington (5.6%, ranked 4<sup>th</sup>), and Oregon (5.4%, ranked 5<sup>th</sup>) in the Far West and Utah (6.0%, ranked 2<sup>nd</sup>) in the Rocky Mountain Region.

There were certain commonalities among these top five states besides geographic location. For example, all five had growth rates in transfer payments which exceeded the 4.4 percent national rate (although Washington at 4.7 percent was barely above). Additionally, all had strong earnings growth in most of their major sectors, and almost all had been ranked in the top 10 for more than the most recent three quarters (with Utah the exception).

While California's 6.2 percent increase in total personal income in the most recent quarter was slightly below 2015:Q2 (6.3% when it was also ranked first), growth in these last two quarters was the largest for the state since the end of 2000. Growth in the most recent quarter was led by a 11.6 percent increase in earnings for the professional & technical services sector, the largest private sector in the state (as measured by total earnings).<sup>5</sup> Above average growth in transfer payments (5.5% compared to a national rate of 4.7%) also aided in total personal income growth. (See Excel file, [Personal Income Components for All States](#) for data back to 1998.)

Number two Utah's 6.0 percent increase in personal income was the largest for the state since the end of 2012. Manufacturing, professional & technical services and health care are the state's three largest sectors and all had solid earnings gains with the largest gain occurring in health care (10.2%). Transfer payment growth (6.5%) was also well above the national average (4.4%).

Number three Nevada's 5.7 percent gain kept the state among the top eight for the sixth time out of the last seven quarters. While having the largest percentage increase in transfer payments among the top five states (7.3%), Nevada also had significant gains in earnings among its top sectors. By far the largest private sector in Nevada (and nearly equal to the total government sector) is accommodation & food services, where earnings grew by 3.4 percent, its eighth consecutive quarterly gain. (The last eight quarters also nearly corresponds to the state's return to being one of the top ranked states in the nation in terms of personal income growth.) In addition to solid gains in health care, professional & technical services and retail, its construction sector (fifth largest) saw an 8.1 percent increase in earnings, the seventh consecutive strong quarterly gain. Nevada's construction sector has finally strongly rebounded from the effects of the Great Recession which had led to 23 consecutive quarters of earnings declines (2007:Q1 to 2012:Q3).

Personal income in number four Washington grew by 5.6 percent in 2015:Q3 and the state has now been among the top six states in six out of the last seven quarters. Washington achieved

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<sup>5</sup> "Earnings" by industry sector is *not* earnings of the industry but rather earnings paid to employees/proprietors and are the sum of wages and salary disbursements to workers, supplements to their wages and salaries, and proprietors' income.

this growth in part because its largest sector, manufacturing, had a small earnings increase of 2.3 percent in the most recent quarter, only the second time in the last five quarters in which there was an inflation-adjusted gain in earnings. Greater growth was found in the state's other large sectors of health care, professional & technical services and information, but especially retail trade and construction with both realizing double digit gains. The information sector is particularly valuable to Washington's economy (the home of Microsoft), with earnings disbursements in this sector making up 7.9 percent of total nonfarm earnings in 2015:Q3, more than double the U.S. share of 3.4 percent and the highest share of any state in the country.

Number five Oregon's 5.6 percent gain in personal income continued a streak of eight straight quarters in which its personal income gains were among the top seven states. Earnings growth was strong in 2015:Q3 in its top three sectors of manufacturing, health care and professional and technical services. In addition, growth in transfer payments of 5.4 percent was above the national average.

### **Decline in farm sector earnings negatively impacting Plains Region**

The Plains Region, impacted by severe declines in farm and mining earnings, had the slowest rate of personal income gains in the third quarter of 2015 (2.6%), making it the third time in a row and the fifth time out of the last seven quarters in which it ranked at the bottom of the nation's eight regions. Three states in the Plains Region were in the bottom five: North Dakota (-2.6%, ranked 51<sup>st</sup>), Iowa (1.0%, ranked 50<sup>th</sup>) and South Dakota (1.2%, ranked 48<sup>th</sup>) while Wyoming (1.1%, ranked 49<sup>th</sup>) in the Rocky Mountain Region and Oklahoma (1.7%, ranked 47<sup>th</sup>) in the Southwest Region were the remaining bottom five states.

The three states in the Plains Region at the bottom of personal income growth were greatly affected by the drop in farm earnings but the most severe impact was in North Dakota. Since farm earnings became negative (i.e., a loss) in 2015:Q3, the percent change between 2014:Q3 and 2015:Q3 was over 100 percent for both farm earnings (-102.3%) and farm proprietors' income (-147.3%). In each case, the most recent declines make it 11 straight quarterly declines of at least double digits, with some in the triple digits for the farming sector.<sup>6</sup>

On top of these declines in the farming sector, North Dakota experienced a 24.6 percent drop in mining earnings in 2015:Q3, which followed an 18.7 percent decline in 2015:Q2. These two quarterly declines in mining earnings could very well be the beginning of a fundamental shift in the fortunes of North Dakota, which, more than any other state in the country, rode the explosive growth of the horizontal hydraulic fracturing process for extracting shale oil to become one of the strongest economies in the country. For instance, North Dakota's personal income growth was ranked number one in the nation for 13 straight quarters (2010:Q1 to 2013:Q1), and was recently ranked as high as seventh in 2014:Q4, the last time the mining sector grew at double digit rates. The state's strong economy also led to a relatively high rate of

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<sup>6</sup> Both farm earnings and farm proprietors' income are estimated to have experienced losses in each of the three quarters of 2015.

population increase. A sparsely populated state, North Dakota's population increase of 9.95 percent between April 1, 2010 and July 1, 2014, was well above the 3.27 percent national rate and was the largest percentage gain in the nation. (See [U.S. Census Bureau's Population Estimates for States](#).) But as the price of oil declines with an overall world-wide oil surplus making the more expensive fracking process less competitive, the state could see personal income (and population) growth rates that are below most states for many quarters to come. It has now been at the bottom of all states for personal income growth in each of the last two quarters.

Farming is the biggest private sector in South Dakota, and its recent decline due to drought-related issues has resulted in percentage declines in both farm proprietors' income and farm earnings in each of the last seven quarters. This has been the major factor in the state being near the bottom of all states in total personal income growth (ranked no higher than 46<sup>th</sup>) for the last seven quarters.

Iowa also continues to suffer from drops in farm earnings, both in wage & salary earnings and farm proprietors' earnings. In each case, these earnings have declined for seven consecutive quarters. When healthy, the farm sector is the second largest in Iowa (after manufacturing) when measured by total earnings disbursements.

The mining sector is the largest sector in terms of total earnings for both Wyoming and (especially) Oklahoma. For each state, this sector declined in the most recent quarter; -10.4 percent in Wyoming and -6.3 percent for Oklahoma. For each state, these declines are the second in a row, which corresponds to both states being near the bottom of all states over the last two quarters.

### ***Components of Personal Income in Maryland and the U.S.***

Quarterly data for the components of personal income are available through the third quarter of 2015. Personal income is comprised of three major components:

- Net earnings by place of residence
- Dividends, interest and rent, and
- Transfer payments

Data for these three components are shown in [Table 3](#), [Table 3A](#), and [Table 4](#) for Maryland, and [Table 5](#), [Table 5A](#) and [Table 6](#) for the U.S. as well as [Charts 2, 3, 4](#) and [4A](#). It should be pointed out that there is almost no state-specific data for any of these measures in the most current quarter. The data is based on extrapolations from the previous quarter or previous year's data, subject to the control of a national estimate. This is why caution should be used in examining the most current components of personal income.

## ***Growth in Maryland's net earnings finally exceeds U.S rates***

[Chart 2](#) illustrates the percentage change for net earnings by place of residence (essentially both wage and salary and proprietor income from work earned by Maryland residents working in or outside of the state) for the last 62 quarters. (Also see line "045" in [Tables 3, 4, 5, and 6.](#)) Maryland's net earnings grew by an inflation-adjusted 4.5 percent in 2015:Q3, exceeding the 4.2 percent increase in 2015:Q2 and the 4.1 percent gain in 2015:Q1. These gains over the first three quarters were the strongest in Maryland in 10 years (since the first three quarters of 2004).

Also significant for Maryland is that it matched the U.S. growth rate in earnings in 2015:Q1, and exceeded the U.S. rate in 2015:Q2 (4.1%). These last three quarters were the first time since the first quarter of 2010, a period of 19 straight months beginning in 2010:Q2, that the growth in Maryland's earnings did not fall below national rates. (See [Tables C&D](#) for quarterly Maryland data and [Tables E&F](#) for quarterly U.S. data back to 1969.) For a significant portion of this nearly five-year slower growth period, part of Maryland's lag in earnings growth was due to the decline in federal civilian and military sector earnings. Earnings in the federal civilian sector dropped for seven consecutive quarters (from 2012:Q2 to 2013:Q4), while for the military earnings have declined over the last 11 quarters (from 2013:Q1). While both these sectors have declined even more so nationally as well (12 straight quarters ending in 2014:Q1 on the civilian side and the last 19 quarters on the military side), the federal sector is much more important to Maryland's economy than in the nation as a whole. For example, net earnings from the federal civilian and military sector typically made up in excess of 12 percent of total earnings by place of work in Maryland, three times the national concentration which is typically around four percent.

## ***Investment income continues its climb***

[Chart 3](#) details the quarterly investment income (dividends, interest and rent) through the third quarter of 2015 for Maryland and the U.S. (Also see line "046" in [Tables 3, 4, 5, and 6.](#)) In the current quarter, investment income in Maryland is estimated to have expanded by 4.1 percent and for the U.S. by 4.6 percent, above gains in the previous quarter (3.4% for Maryland and 3.6% for the U.S.). For the most part, investment income growth has been healthy both locally and nationally, with inflation-adjusted gains in 17 out of the last 21 quarters locally and 18 out of the last 21 quarters nationally (since 2010:Q3) fueled by a booming stock market leading to record highs of several market indices.<sup>7</sup>

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<sup>7</sup> This period of mostly good growth was interrupted by declines in all four quarters of 2013 for Maryland and three quarters for the U.S. The largest drop during this period was in 2013:Q4 (-6.5% for Maryland and -7.8% for the U.S.). However, these declines (measured against the fourth quarter of 2012) were "distorted" by the acceleration of dividend payments to the fourth quarter of 2012 that would have normally been paid out in the first quarter of 2013 (for tax considerations), leaving the 2012:Q4 totals unusually high and hence yielding the reported large decline between 2012:Q4 and 2013:Q4.

## ***Transfer payment growth remains strong as Medicaid expands***

[Chart 4](#) shows the percentage change in transfer payments, essentially payments to individuals from government covering such things as retirement and disability, medical payments, income maintenance, unemployment insurance and veterans' benefits. (Also see line 47 in [Tables 3, 4, 5, and 6.](#)) Since transfer payments include the "social safety nets," they typically rise in a slowing or declining economy (or with natural or man-made disasters) and will decline when the economy is expanding.

Transfer payments continued to grow but at a slower pace than in previous quarters for Maryland, with the 2015:Q3 expansion at 2.1 percent, lowest since 2013:Q3. For the U.S., the slowdown wasn't quite as dramatic but the current rate of 4.4 percent was below the previous two quarters in 2015. Both locally and nationally, the largest segment of transfer payments in 2015:Q3 is payouts for social security, making up about one-third of transfer payments in the U.S. (32.7%) and for Maryland (32.0%). Medicare and Medicaid payments make up the next two largest outlays and combined with Social Security account for over three-quarters of all transfer payments both nationally (76.2%) and in Maryland (77.9%) in 2015:Q3. (See [Table 3A](#) for Maryland and [Table 5A](#) for the U.S.)

For Maryland the fastest rate of increase, until recently, among the transfer payment components since the beginning of 2014 has been Medicaid, which grew at double digit rates from 2014:Q1 through 2015:Q1. Medicaid payments slowed to a 5.0 percent rate in 2015:Q2 before declining by 3.1 percent in 2015:Q3. In an improving economy, this decline may be tied to more people getting insurance through private providers or through an employer.

Nationally, the double-digit percentage increases occurred from the second half of 2014 through the first two quarters of 2015, with the most current quarter's growth slowing to 6.5 percent. Much of the local and national increases have been due to the implementation of the Affordable Care Act, which allowed states to expand Medicaid eligibility. While Maryland did expand Medicaid eligibility right away beginning in 2014, not all states did so, or at least not right away, which helps explain why Maryland's growth rate for this segment of transfer payments was increasing at a much more substantial rate than the national average through 2015:Q1.<sup>8</sup>

In contrast to increases in Medicaid and other transfer payments, payments for unemployment insurance continues to fall in the most recent quarter both locally (-15.0%) and nationally (-4.7%) as the job market continues to improve and the unemployment rates decline (and/or as eligibility for benefits expire). (See [Chart 4A.](#)) Unemployment insurance payments made up 1.4 percent of transfer payments in Maryland and 1.2 percent in the U.S in the most recent quarter. At its recent peak in 2010:Q1, unemployment insurance payments made up 5.8

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<sup>8</sup> Coverage under the Medicaid expansion became effective January 1, 2014 in all states that have adopted the Medicaid expansion except the following: Michigan (4/1/2014), New Hampshire (8/15/2014), Pennsylvania (1/1/2015), Indiana (2/1/2015), and Alaska (9/1/2015). (Source: Kaiser Family Foundation.) As of January 1, 2016, a total of 32 states have adopted Medicaid expansion.

percent of transfer payments in Maryland and 6.9 percent nationally. (See [Tables C&D](#) for quarterly Maryland data and [Tables E&F](#) for quarterly U.S. data back to 1969.)

### ***Total wage growth continues to improve, but Maryland still lags U.S.***

A major component of earnings by *place of residence* is wages and salaries that are collected by *place of work* through the unemployment insurance reporting system.<sup>9</sup> Maryland saw an estimated 4.4 percent increase in wages in the third quarter of 2015, an improvement over the 4.1 percent gain in the previous quarter and the fastest rate of growth in over 11 years (since 2004:Q1 at 5.1 percent. (See [Chart 5](#) and [Tables 7 & 8](#). Also See [Tables G & H](#) for Maryland wage data back to 1969.)

Total U.S. wages expanded by 4.8 percent in 2015:Q3, the same rate as in the prior quarter. As with Maryland, the current national rate compares very favorably with historical data, exceeded only by the 5.0 percent expansion in 2012:Q4 in the last 15 years.<sup>10</sup> (See [Table 9](#) and [Table 10](#) or [Chart 5](#).) National wages have been growing at a faster rate than in Maryland in recent years, having exceeded the Maryland rates in each of the last 14 quarters and 18 out of the last 21 quarters. This period of faster growth for the U.S. followed 10 straight quarters of declines (2008:Q1 – 2010:Q2), the worst performance for the nation in the data series back to 1969. (See [Tables I & J](#) for U.S. wage data back to 1969.) While Maryland’s total wage disbursements have not kept pace with the U.S. in the recovery years since the Great Recession, it also did not have as severe of a decline during and immediately following the Great Recession, with declines in a smaller number of consecutive quarters (six) compared to 10 nationally, and with much less severe drops.<sup>11</sup> (See [Chart 5](#).)

### **Wage Growth by Sector**

[Chart 6](#) (two pages) depicts the inflation-adjusted percentage change in wages by sector for both Maryland and the U.S. using *annualized* data for the first three quarters of 2014 and 2015 (with the data in rank order according to the percent change for the Maryland sectors).<sup>12</sup> All told, there were 21 sectors in Maryland and the U.S. that showed inflation-adjusted growth in wages & salaries in the first three quarters of 2015 when compared to the first three quarters

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<sup>9</sup>The wage & salary data, plus “supplements to wages and salaries,” as well as “proprietors’ income,” are all part of the “earnings by place of work” total. (See lines “050-072” in [Tables 3, 4, 5, and 6](#).) Subtracted from the net earnings by place of work to get net earnings by place of residence are personal contributions for social insurance and an “adjustment for residence” (essentially an adjustment of income based on where workers live as opposed to where their income is earned). (See lines “035-045” in [Tables 3, 4, 5, and 6](#).)

<sup>10</sup> The large growth in 2012:Q4 was largely the result of the acceleration of paid bonuses in that quarter from what normally would have been paid in 2013:Q1. This was done for tax purposes.

<sup>11</sup> Wages declined in Maryland from 2008:Q1 through 2009:Q2. (See [Chart 5](#).)

<sup>12</sup> Annualized data for the three quarters of 2014 and 2015 is used instead of comparing 2015:Q3 with 2014:Q3 because of the very preliminary nature of the latest quarterly data.

of 2014. The only sectors with declines for Maryland were the information (-3.9%) and the military (-0.3%), while for the U.S., it was mining (-4.7%) and the military (-2.6%).

In Maryland, the five largest percentage gains in wage disbursements was in agricultural services (11.7%), arts, entertainment & recreation (8.8%), transportation & warehousing (7.8%), administrative & waste services (7.5%), and real estate, rental & leasing (6.2%).

However, none of the top five percentage increases were among Maryland's top five sectors as measured by *total* wage and salary disbursements. The state's largest sector, professional & technical services, saw its wages grow by only 2.1 percent, well below the 6.9 percent gain for the U.S. Typically, this sector has been quite resilient in Maryland, not having had quarterly declines all during the official Great Recession period (December 2007 through June 2009). However, declines did occur in three of the quarters in 2013 and are probably the result of the federal budget sequestration, which began March 1, 2013, since much of the federal contractor monies that comes to Maryland typically flows to industries in this sector. The continued sequestration may be part of the reason for the slower growth in this sector for Maryland compared to the rest of the U.S. in the first three quarters of 2015.

Wages in the health care & social assistance sector, the second largest sector in Maryland, grew by 4.5 percent in the first three quarters of 2015, slightly above the 4.4 percent national rate. Like professional & technical services, this sector had been virtually recession proof with only two quarters of decline from 1998 to 2015 (2011:Q4 and 2013:Q4). (See [Table H](#) and [Table G](#) for Maryland wage & salary disbursement data back to 1999 for NAICs sectors and 1969 for SIC sectors.)

Another important sector in Maryland which continues to grow, but at below national rates, is construction, where wages grew by 4.4 percent in the first three quarters of 2015, well below the 7.8 percent national gain. Nevertheless, this sector has had wage gains for 10 straight quarters in Maryland and comes after a period of 13-straight quarterly declines (2007:Q4 to 2010:Q4) and 19 out of 22 quarters (2007:Q4 to 2013:Q1). Despite these recent gains, however, because of past sustained losses before, during, and after the Great Recession, total wage & salary disbursements in the first three quarters of 2015 (\$8.65 billion at an annualized rate) are just a bit below what they were in 2004 (\$9.09 billion) after adjusting for inflation. Construction wage disbursements peaked at \$10.25 billion in 2007 and hit a low of \$7.89 billion in 2012.<sup>13</sup>

### **Manufacturing showing growth for first time after long periods of decline**

Wages in the manufacturing sector grew by 5.1 percent in Maryland in the first three quarters of 2015, even exceeding the 3.1 percent national increase. Inflation-adjusted wage growth for manufacturing in Maryland has been extremely rare since the second half of 2001. In the 39 quarters (nearly 10 years) from 2001:Q3 to 2014:Q3, there was only four quarterly gains.

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<sup>13</sup> All values are annualized over the first three quarters for the year mentioned.

Over the longer term the national manufacturing sector has been more robust, having had inflation-adjusted wage gains in each of the last 10 quarters and in 20 out of the last 22 quarters. However, the manufacturing sector is a more important component of the national economy than it is in Maryland, having the second largest wage disbursements among all private sectors. For Maryland, the manufacturing wage disbursements are the sixth largest among the private sectors.

### **Information and military sectors continue to falter**

The two sectors with declining wage & salary disbursements in Maryland in the first three quarters of 2015, information (-3.9%) and the military (-0.3%) have generally been faltering for a while. The information sector has been declining for 30 out of the last 37 quarters (a period beginning in the second half of 2006), including the most recent six quarters. In contrast, the information sector nationally has grown in 13 out of the last 14 quarters.

In contrast to the information sector, the declines in the military sector locally were not as severe as what has been happening nationally. For Maryland, wage & salary disbursements were flat in the most recent quarter, following 10 straight quarterly declines while nationally military wage & salary disbursements dropped for 21 straight quarters.

(See [Table I](#) and [Table J](#) for U.S. wage & salary disbursement data back to 1969.)

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