Fourth quarter of 2014

Personal income growth accelerated in Florida, Texas, and 30 other states in the fourth quarter of 2014. Growth slowed in 15 states, including California and New York. Growth rates ranged from 0.6 percent in Louisiana to 1.5 percent in Texas. On average, personal income grew 1.0 percent in the fourth quarter, the same pace as in the third quarter (chart 1). The national price index for personal consumption expenditures fell 0.1 percent in the fourth quarter after rising 0.3 percent in the third quarter.

All three major components of personal income—net earnings, property income, and transfer receipts—grew more slowly in California and New York in the fourth quarter than in the third quarter. Property income and transfer receipts growth also slowed in Florida.

1. State personal income, which is measured in current dollars, is the sum of net earnings by place of residence, property income, and personal current transfer receipts. Quarterly estimates in dollars are expressed at seasonally adjusted annual rates; quarter-to-quarter percent changes are not annualized.

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David G. Lenze prepared the report on state personal income.
and Texas. However, net earnings growth accelerated in those two states, which was enough to offset the slowdown in the nonlabor components of personal income.

**Earnings**

Overall, earnings by place of work grew 1.2 percent in the fourth quarter of 2014, up from 1.0 percent in the third quarter.² Earnings growth accelerated in 31 states and the District of Columbia and slowed in 12 states. In the other seven states, earnings resumed growing in the fourth quarter after falling in the third quarter (table A).

Alaska grew 0.8 percent in the fourth quarter after falling 2.0 percent in the third quarter. The third-quarter decline, which was mainly in state and local government, was the largest of all states.

Two of the other states that resumed growth in the fourth quarter—Nebraska and South Dakota—are recovering from a third-quarter earnings decline in the farm sector. Their nonfarm sectors grew in both quarters, though at a slower pace than the 50 state average.

Mississippi’s earnings increased 0.8 percent in the fourth quarter after falling 0.8 percent in the third quarter. Its nonfarm earnings growth rate has been among the slowest since the first quarter of 2010; only Maine, New Jersey, and New Mexico have grown more slowly.

California, whose 2.0 percent earnings growth in the third quarter was the highest of all states, slowed to 1.0 percent growth in the fourth quarter, below the national average. California’s third-quarter growth was led by durable-goods manufacturing and information, both of which declined in the fourth quarter.

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² Earnings by place of work differs from net earnings, which is measured by place of residence. Earnings by place of work less contributions for government social insurance plus the residence adjustment equals net earnings.
Of the 22 industries in which earnings grew in the fourth quarter (table B), the fastest growth—5.7 percent—was in forestry, which includes agricultural services, as well as utilities (2.1 percent), professional services (1.9 percent), and accommodations (1.9 percent). The accommodations industry, which includes restaurants and bars, grew 3.4 percent in North Dakota, 2.5 percent in Hawaii, and 1.3 percent in Nevada in the fourth quarter.

The national price index for personal consumption expenditures on energy goods and services fell 7.3 percent in the fourth quarter after falling 1.0 percent in the third quarter. Mining earnings, which includes earnings in the oil and gas extraction industry, continued to grow in the fourth quarter; however, the 1.1 percent increase was slower than the 1.7 percent third-quarter increase.

The 0.5 percent fourth-quarter increase in state and local government earnings was below the average for all industries, continuing its trend of relatively slow growth during the recovery from the last recession. Since the first quarter of 2010, the state and local government share of total earnings has declined from 14.2 percent to 12.4 percent.

Other income

Personal current transfer receipts grew 0.7 percent in the fourth quarter of 2014 after increasing 1.3 percent in the third quarter. Medicaid rose 1.3 percent and state unemployment insurance (UI) benefits fell 3.0 percent, while all other transfer receipts grew 0.7 percent.

Dividends, interest, and rent grew 0.6 percent in the fourth quarter after growing 0.8 percent in the third quarter.
State Personal Income, 2014

Annual statistics for 2014
Average state personal income growth accelerated to 3.9 percent in 2014 from 2.0 percent in 2013. Growth in 2013 was reduced by the shifting of income from 2013 into 2012 to avoid anticipated income tax rate increases and the expiration of the payroll tax holiday. State personal income growth in 2014 ranged from 0.5 percent in Nebraska to 5.7 percent in Alaska and Oregon, with 45 states growing faster in 2014 than in 2013. Inflation, as measured by the national price index for personal consumption expenditures, was 1.3 percent in 2014 and 1.2 percent in 2013.

Oregon’s growth in 2014 was impressive—no state grew faster. Yet for most of the recovery, its growth has been below the national average. The rapid growth in 2014 brings Oregon’s cumulative personal income growth from 2009 to 2014 up to the national average (chart 2).

Net earnings grew 4.0 percent on average in 2014, up from 1.8 percent in 2013. The percent change in net earnings in 2014 ranged from −0.8 percent in Nebraska, the only state with a decline, to 6.4 percent in North Dakota. Nonfarm earnings growth of 3.6 percent in Nebraska was offset by a 34.6 percent decline in farm earnings. Similar farm earnings declines—as high as 48 percent—contributed to relatively slow personal income growth in Illinois, Indiana, Iowa, Kansas, Mississippi, Missouri, and South Dakota.
Mississippi was one of four states with slowing personal income growth in 2014; growth fell to 1.3 percent from 1.6 percent. The decline in farm earnings contributed to this slowdown. About one third of the decline in farm earnings in 2014 was due to a $1 billion settlement received by Mississippi farmers in 2013 for a class action lawsuit that alleged racial discrimination by the U.S. Department of Agriculture in its evaluation of farm loan applicants.¹

In North Dakota, mining and construction earnings grew 19.9 percent and 13.4 percent, respectively, while earnings in all other industries grew 4.8 percent. In North Dakota, mining and construction accounted for 45.9 percent of total earnings growth.

Property income (dividends, interest, and rent) grew 3.4 percent on average in 2014, up from 2.1 percent in 2013, with rental income contributing about half of the increase ($44.6 billion) in 2014. The growth of property income in 2014 ranged from 2.5 percent in South Dakota to 3.9 percent in Delaware. Property income rebounded 3.3 percent in Arkansas after falling 0.2 percent in 2013; it was the only state with a decline that year.

Personal current transfer receipts grew 4.5 percent on average in 2014 up from 2.7 percent in 2013. Medicaid benefits grew 11.1 percent, Social Security grew 4.4 percent, and Medicare grew 2.7 percent. State unemployment insurance compensation, in contrast, fell 40.7 percent.

Much of the decline in state UI compensation reflected the expiration of the Emergency Unemployment Compensation program as well as a decline in the unemployment rate.

Medicaid transfer receipts increased 13.6 percent in the states that expanded coverage in 2014 under the Affordable Care Act and 7.3 percent in the states that did not expand coverage (table C).²

Total transfer receipt growth in 2014 ranged from 1.8 percent in Louisiana to 20.3 percent in Alaska. Most of the increase in Alaska was accounted for by the Permanent Fund Dividend, which amounted to $1,884 per qualified applicant in 2014 up from $900 in 2013. This contributed 1.7 percentage points to the state’s personal income growth rate in 2014.

Table C. Growth of U.S. Personal Current Transfer Receipts

<table>
<thead>
<tr>
<th>Receipt Type</th>
<th>Percent change</th>
<th>Dollar change (millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>Personal current transfer receipts</td>
<td>2.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Medicaid</td>
<td>5.7</td>
<td>11.1</td>
</tr>
<tr>
<td>States expanding coverage¹</td>
<td>6.7</td>
<td>13.6</td>
</tr>
<tr>
<td>States not expanding coverage</td>
<td>4.3</td>
<td>7.3</td>
</tr>
<tr>
<td>State unemployment insurance</td>
<td>-25.7</td>
<td>-40.7</td>
</tr>
<tr>
<td>Social Security, Medicare, and other</td>
<td>3.3</td>
<td>4.4</td>
</tr>
</tbody>
</table>

1. Includes the District of Columbia

2. The states that expanded Medicaid in 2014 were Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Iowa, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Ohio, Oregon, Rhode Island, Vermont, Washington, and West Virginia.
Three of the most widely used measures of household income are BEA’s measure of personal income, the Census Bureau’s measure of money income, and the Internal Revenue Service’s measure of adjusted gross income of individuals.1

Personal income in general is the most comprehensive measure. Personal income is defined as the sum of wages and salaries, supplements to wages and salaries, proprietors’ income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance. Because the personal income of an area represents the income that is received by, or on behalf of, all the persons who live in that area and because the estimates of the earnings component of personal income are made on a place-of-work basis, state personal income includes an adjustment for residence. State personal income excludes the earnings of federal civilian and military personnel stationed abroad. Personal income includes the incomes of individuals, of nonprofit institutions that primarily serve individuals, of private noninsured welfare funds, and of private trust funds. The property income earned on life insurance and annuity reserves of life insurance carriers and earned on the assets of noninsured pension plans are also included in personal income.2

Money income consists of income in cash and its equivalents before taxes and does not include the value of noncash benefits. It includes personal contributions for government social insurance, distributions from government employee retirement plans and from private pensions and annuities, and income from regular interpersonal transfers, such as child support, but personal income does not. Unlike personal income, it excludes employer contributions for employee pension and insurance funds, lump-sum payments except those received as part of earnings, certain in-kind personal current transfer receipts—such as Medicaid, Medicare, and Supplemental Nutritional Assistance Program benefits. Adjusted gross income (AGI) consists of the taxable income prior to exemptions and the standard or itemized deductions that is reported by individuals on their federal income tax returns. It includes, but personal income excludes, personal contributions for social insurance, gains and losses on the sale of assets, and taxable distributions from government employee retirement plans and from private pensions and annuities. AGI excludes, but personal income includes, the income of the recipients of taxable incomes who, legally or illegally, did not file an individual income tax return. In particular, AGI excludes the income of many individuals with low incomes who are exempt from filing tax returns. The adjusted gross income data are based on a sample of all individual income tax returns filed by U.S. citizens and residents for the relevant tax year. Additionally, AGI excludes certain types of income that are not taxed—such as tax-exempt interest and nontaxable transfer payments, including Medicare, Medicaid, and welfare benefit payments—and it includes the taxable portion of social security benefit payments.

Per capita estimates of personal income, money income and AGI are presented in the table. The Census Bureau calculates per capita money income using population as of March of the following year, whereas state per capita personal income is based on population as of July 1 of the same year. The IRS does not produce per capita AGI; the estimates shown are derived by dividing aggregate AGI by total population from the Census Bureau that BEA also uses in the calculation of state per capita personal income.

<table>
<thead>
<tr>
<th>Alternative Per Capita Income Measures</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>State personal income</td>
<td>44,200</td>
<td>44,765</td>
<td>46,129</td>
</tr>
<tr>
<td>Money income</td>
<td>28,281</td>
<td>28,829</td>
<td>n.a.</td>
</tr>
<tr>
<td>Adjusted gross income (AGI)</td>
<td>28,829</td>
<td>28,819</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

1. See also the Census Bureau’s Income, Poverty and Health Insurance Coverage in the United States: 2012 Report; the Internal Revenue Service’s annual Individual Income Tax Returns.
2. For more details about the definition and measurement of personal income, see State Personal Income and Employment Methodology on BEA’s Web site.

Elizabeth McCormack