

Maryland's Personal Income Growth Stays Positive in Second Quarter of 2009

While Still Slow, Much Better Than Overall U.S. Decline

Personal income rose in the second quarter of 2009 in Maryland, but continued to falter in the U.S., according to recently released data from the U.S. Bureau of Economic Analysis.¹ Maryland's increase (0.9%) contrasted with a continued decline in the national rate (-2.4%) in the latest quarter, leading to an improvement in its relative ranking.² The decline in the U.S. rate was greater than the previous quarter's, further opening a gap in performance and showing that Maryland's economy is recovering more quickly than the U.S. as a whole is deteriorating. Still, while overall personal income growth in Maryland has been positive, total wage and salary disbursements have been declining for six consecutive quarters, the same as in the nation as a whole. Quarter-over-quarter declines of this length are primarily a function of total job losses, but also are an indication of depressed or falling real wage rates. For both Maryland and the U.S., the six consecutive quarterly declines in real wages were the first in 35 years.

Few States have Rising Income

The U.S. BEA estimates that only four states had gains in personal income in the second quarter of 2009 (West Virginia, North Dakota, Maryland, and Iowa), similar to the four states in the previous quarter (West Virginia, Maryland, Louisiana, and New Mexico), demonstrating that, as of the end of June, the U.S. remains in a deep recession. According to the National Bureau of Economic Research (NBER), the U.S. has been in a recession since December 2007, which was the peak economic growth of the most recent expansion cycle that began in November of 2001 and lasted for 73 months.³ The NBER made this decision after its Business Cycle Dating Committee reviewed quarterly data from the U.S. Bureau of Economic Analysis on "real Gross Domestic Product" and "real Gross Domestic Income" along with other data and found that, overall, "the decline in economic activity in 2008 met the standard for a recession."⁴

Personal income in the U.S., adjusted for inflation, declined by 2.4 percent in the second quarter of 2009 (April to June) when compared with the second quarter of 2008 (See [Chart 1](#)). The latest loss was the fourth consecutive quarterly decline (and the largest). This is the first time since the beginning of the data series in 1969 that inflation-adjusted national personal income has declined for four consecutive quarters.

Quarterly Maryland Performance Relative to U.S.

For the past four quarters, Maryland has seen quarter-over-quarter increases in personal income while the nation as a whole has seen declines. This is a change from the previous two years, when Maryland's personal income gain fell below national rates for all 10 quarters between the first quarter of 2006 to the second quarter of 2008. Prior to 2006, Maryland's personal income grew more rapidly than the U.S. for 26 of 28 quarters

¹ Release date: December 18, 2008

² All percent change figures in this document are based on the calculation from the same quarter in the previous year and are adjusted for inflation.

³ The previous expansion of the 1990s lasted 120 months.

⁴ <http://www.nber.org/cycles/dec2008.html>

(1999:Q1 to 2005:Q4), the second longest period that Maryland exceeded national rates since the beginning of the data series in 1969.⁵ (See [Chart 1A](#) for data back to 1998. [Tables A&B](#) and [C&D](#) contain quarterly data back to 1969.)

Maryland's estimated 0.9 percent increase in personal income in the second quarter of 2009 was ranked third among the 50 states and the District of Columbia. This average relative ranking is a slight decrease from the previous quarter (with a ranking of second) but is still the third-highest ranking that Maryland has achieved since 1970. Maryland has only been in the "top five" seven times since 1970 and had not been in the top five since 2002, when it ranked second in the first quarter and fifth in the second quarter of that year. Previously, Maryland had personal income growth ranking in the top five states in the first two quarters of 1985 (fourth) and the third quarter of 1988 (fifth).

These high rankings are a significant improvement over even three quarters before, when Maryland ranked 16th in personal income growth. In general, the overall trend since 2005 has been for Maryland to be ranked below the 50th percentile (25th or below) as compared to other states, after showing generally above average relative rankings in the previous six years. (See [Table 1](#) and [Table 2](#) for data since 2005 and [Tables A&B](#) and [C&D](#) for the full data series.)

Mideast Region Shrinks Slightly More Than Nation

While Maryland had income growth in 2009:Q2, overall personal income in the Mideast Region of which it is a part – also comprised of Delaware, the District of Columbia, New Jersey, New York and Pennsylvania – decreased by 2.6 percent in the second quarter of 2009, ranking it seventh among the eight major regions and coming in at 0.2 percent below the national growth rate. Although typically this Region's personal income growth is below the national average, between the first quarter of 2006 and the second quarter of 2009 it had faster personal income growth than the nation in 8 of the 14 quarters, the best relative performance since the late 1980s.

Within the Region, New York (-4.8%, ranked 49th) and the District of Columbia (-3.8%, ranked 47th) had slower personal income growth than national rates, while New Jersey (-2.0%, ranked 26th), Delaware (-1.1%, ranked 14th), Pennsylvania (-0.8%, ranked 11th), and Maryland (0.9%, ranked third) all significantly exceeded the national rate.

The Plains Leads U.S. Regions

While all regions of the U.S. showed overall decreases in personal income, in the second quarter of 2009 some regions fared better than others. The Plains Region had the best performance in this quarter, as it had the smallest decrease in personal income (-1.5%) in the U.S.. This continues a recent trend, as the Plains Region has had the highest personal income growth in three out of the last five quarters. Before this, the Plains Region was ranked either sixth or seventh of the eight regions for 13 of the 16 quarters from 2004 to 2007.

⁵ Maryland's personal income grew more rapidly than the U.S. for 30 of 31 consecutive quarters in the 1980s (1981:Q4 – 1989:Q2).

Personal income change in five of the seven states of the Plains Region was more positive (or less negative) than the U.S. in the second quarter with North Dakota (0.9%, ranked second) and Iowa (0.4%, ranked fourth) in the top five. North Dakota, with solid growth in mining, wholesale trade and health care among other sectors, was one of only two states to have gains in non-farm private earnings (The other was West Virginia). (See file [AllStates PIconponents.xls](#) for the inflation-adjusted components of personal income over the 2001:Q1 to 2009:Q2 time period.)

Far West Region at Bottom

The Far West Region had the largest decline in personal income in the U.S. in the most recent quarter (-2.8%). This was the fourth consecutive quarter that the Far West Region has been at the bottom of the eight regions.

The Far West has been greatly affected by a decline in its largest economy, California (-3.3%, ranked 40th). Personal income in California has now declined for six consecutive quarters, one of only two states west of Mississippi (the other was Arizona) to experience declines over the last year and a half. Other states in the Far West Region at the bottom were Nevada (-5.3%, ranked 51st) and Alaska (-4.8%, ranked 50th). Nevada has now had the largest declines in personal income in the nation for three consecutive quarters – a consequence of the devastation wrought by the bursting of the housing bubble in what was once one of the nation’s most overheated housing markets.

Alaska’s personal income decline has been more sudden, having had one of the nation’s strongest personal income gains in 2008. It still has a relatively strong economy, with the declines in personal income in both quarters of 2009 having to do with drops in transfer payments most likely associated with declines in the state’s oil fund dividend disbursed to its residents. (See file [AllStates PIconponents.xls](#) for the inflation-adjusted components of personal income over the 2001:Q2 to 2009:Q2 time period.)

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

Data for the components of personal income are available by quarter through the second quarter of 2009. 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](#) and [Table 4](#) for Maryland, and [Table 5](#) and [Table 6](#) for the U.S. as well as [Charts 2, 3, and 4](#). 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.

Net Earnings Rise in Maryland, Decline Nationally

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 38 quarters (Also see line “045” in **Tables 3, 4, 5,** and **6**). Maryland’s net earnings grew by 0.7 percent in 2009:Q2, the third quarter of increase following four quarters of decline. For the U.S., however, net earnings continued to decline (-4.2%), making it seven consecutive quarters of shrinking earnings for the nations’ workers and the largest quarter-over-quarter decrease since 1974:Q4. While the growth rate in earnings for Maryland has rebounded, growth rates since 2007:Q4 are still the lowest they have been since 2003:Q1. However, when compared with the seven consecutive quarters of loss in the U.S. and the fact that the rate of decrease in the U.S. in 2009:Q2 is the lowest in 35 years, it is clear that Maryland has not been as hard hit as other states by the current recession.

Investment Income Estimated to Decline Sharply

Chart 3 details the quarterly investment income (dividends, interest and rent) through the second quarter of 2009 for Maryland and the U.S. (Also see line “046” in **Tables 3, 4, 5** and **6**). Since there is no state-specific data for 2009, it makes little sense to analyze the most recent data. Suffice it to say, however, that the data does show increasingly larger declines in investment income nationally starting in 2008:Q2, culminating in a 7.3 percent quarter-over-quarter decline in the second quarter of 2009. Investment income has not declined as much in Maryland as in the U.S. since 2008:Q2, but is has declined significantly, culminating in a 4.7 percent drop in the second quarter of 2009.

Transfer Payments Increase Substantially

Chart 4 shows growth 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 lines “047-049” 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.

Due to rebate payments provided by the Economic Stimulus Act of 2008 and an increase in unemployment insurance claims, both Maryland and the U.S. showed inflation-adjusted gains in transfer payments throughout 2008.⁶ While the stimulus payments were complete by the end of 2008, in the first quarter of 2009 transfer payments were again increased by cost of living adjustments to social insurance benefits.⁷

In 2009:Q2, government transfer payments have been increased by the American Recovery and Re-Investment Act (ARRA) of 2009, as well as by increased

⁶ The Economic Stimulus Act of 2008 provided rebate payments to eligible taxpayers. In quarterly state personal income, rebates for individuals who pay no income taxes (or for whom the rebate would exceed the current amount of the income taxes they do pay) are treated as personal current transfer receipts. These amounted to \$103.6 billion nationally (in 2005 constant dollars) in the second quarter of 2008 and \$4.5 billion in the third quarter. <http://www.bea.gov/newsreleases/regional/spi/2008/spi1208.htm>

⁷ http://www.bea.gov/newsreleases/regional/spi/sqpi_newsrelease.htm

unemployment benefits.⁸ Nationally, transfer payments increased 10.7 percent over the same quarter last year, while they increased 10.4 percent in Maryland (See **Chart 4**). With a deteriorating jobs picture over the past year, both Maryland and the U.S. are showing increasing inflation-adjusted gains in unemployment insurance payments, a component of transfer payments. The percentage growth for Maryland has been quite substantial, with triple digit increases in each out of the last three quarters, culminating in a 222.2 percent increase in 2009:Q2. Growth in the U.S. has been higher than in Maryland, with a 269.4 percent gain in 2009:Q2. (See **Chart 4A**).

Wage Growth Positive for Maryland, Improving for U.S.

A major component in earnings by *place of residence* is wages and salaries that are collected *by place of work* through the unemployment insurance reporting system.⁹ Total wages in Maryland are estimated to have declined by 1.5 percent in the second quarter of 2009, the sixth consecutive quarter of shrinking wages (See **Chart 5**). Wage losses in the nation as a whole have declines much worse than in Maryland, a significant 4.6 percent from the same quarter last year. So far, total wages have held up better in Maryland than in the nation during the current recession due to relatively smaller job losses. Although these data will be revised in subsequent releases, for now the data is showing that U.S. wages are declining at a faster rate than Maryland's (See **Table 9**).

Maryland was also less affected than the nation as a whole in the last recession. Total wages and salaries, adjusted for inflation, declined in the U.S. for seven consecutive quarters, (from 2001:Q3 to 2003:Q1), the second time this has happened since the beginning of the data series in 1969.¹⁰ In contrast, Maryland had only one quarter (2003:Q1) of wage and salary decline following the 2001 recession. (For 1969-2008 quarterly data on wages and salaries, download **Tables I&J** for Maryland data and **Tables K&L** for U.S. data.)

Wage Growth by Sector

Chart 6 shows the inflation-adjusted percent change in wages by sector for both Maryland and the U.S. *as a calculated annual average of the first two quarters of 2009 compared to the first two quarters of 2008* (since the data by sector for the most recent quarter is too preliminary to be used alone). This data shows that eight of 23 public and private sectors in Maryland had positive growth rates in 2009: Military (9.1%); educational services (7.3%), federal civilian workers (6.2%); health care & social

⁸ "ARRA payments for OASDI [*Old Age, Survivors, and Disability Insurance*], SSI and food stamps were \$60 billion in the second quarter, State UI benefits increased \$44 billion, and all other transfers increased \$49 billion [*in current dollars as compared to 2009:Q1*]. ARRA payments contributed as much as 0.9 percentage point to second quarter personal income growth in Mississippi and West Virginia and 0.8 percentage point in Alabama, Arkansas, and Kentucky, but only 0.3 percentage point in . . . Maryland . . ." http://www.bea.gov/newsreleases/regional/spi/sqpi_newsrelease.htm

⁹The 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**.)

¹⁰ There were seven consecutive quarters of declines during the 1974 to 1975 period.

assistance (4.3%); state and local (3.8%); farm (3.0%); professional & technical services (2.2%); and arts, entertainment, & recreation (0.2%).

Maryland's two largest private sectors, as measured by total personal income, are professional & technical services and health care & social assistance. Health care grew at a 4.3 percent rate for the first two quarters of 2009, as compared to 3.5 percent nationally. Professional services grew at 2.2 percent, a much stronger showing than the 2.3 percent decline nationally (See [Chart 6](#)). The professional & technical sector is very broad in scope and includes such industries as legal, accounting, architectural, engineering, and computer services, among others, and has the highest average wage of any large private sector in Maryland.¹¹

Most other sectors in Maryland are experiencing inflation-adjusted declines. The largest declines were seen in these sectors: Retail trade (-6.5%), management of companies & enterprises (-7.7%); manufacturing (-8.1%); finance & insurance (-8.3%); construction (-10.3%); and real estate, rental, & leasing (-14.2%). Total wages in these sectors also declined nationally.

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¹¹ Average wage calculated at \$75,790 for 2007, *unadjusted* for inflation, from U.S. BEA data.