

Personal Income Increases, But at a Slower Rate than the Nation

The latest earnings data from the U.S. Bureau of Economic Analysis show Indiana's total personal income at \$150 billion, the 16th largest economy in the nation. Between the third quarter of 1998 and the same quarter in 1999, Indiana's personal income grew by 4.3%. During the same period, the

Great Lakes states grew by 5.2% and the nation by 5.6%.

Indiana's current rate of personal income growth is consistent with recent and long-term trends for the state and the region. The five-state Great Lakes region has seen a decline in its share of the nation's income in

each of the past three decades (see figure 1). The intense global competition beginning in the 1970s within the manufacturing sector has hit both the Great Lakes and Mideast regions particularly hard. Prior to this period, the Great Lakes contributed 21% to the nation's personal income, exceeded only by the Mideast region at 24%. Today, the Great Lakes contribute 16%, less than the Southeast, Mideast and Far West regions. Indiana's share of the nation's personal income has similarly moved from 2.47% in the third quarter of 1969 to 1.97% in the same quarter of 1999 (see figure 2).

Personal income is made up of earnings, returns to wealth, and transfer payments. Earnings (what we make as the result of working for ourselves or for someone else) in Indiana are not rising as rapidly as in the rest of the nation (see figure 3). Because earnings constitute approximately 70% of all personal income, this 1.8% differential (Indiana 4.8% vs. the nation at 6.6%) dominates the offsetting effects of other income components. Hoosiers are doing better than the nation in returns to wealth (dividends, interest and rent) but not as well in transfer payments (largely Social Security). But each of these components accounts for just 15% of personal income and is less subject to state and individual policy decisions.

To understand Indiana's earnings growth, consider figure 4, where the various sectors of the economy are shown in descending order of importance to the state. Manufacturing leads the list, accounting for 31% of all earnings, followed by services with

Figure 1: Change in Share of U.S. Personal Income 3Q 1969 - 3Q 1999

Source: Bureau of Economic Analysis

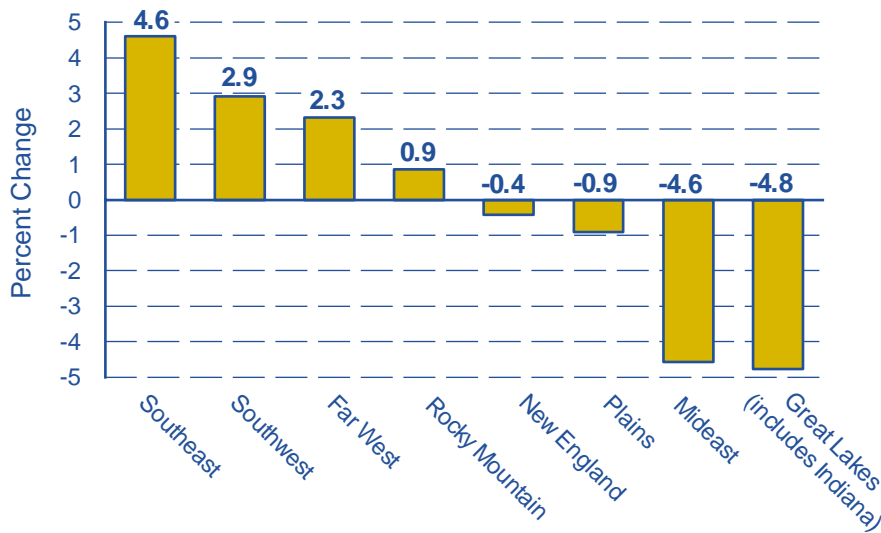
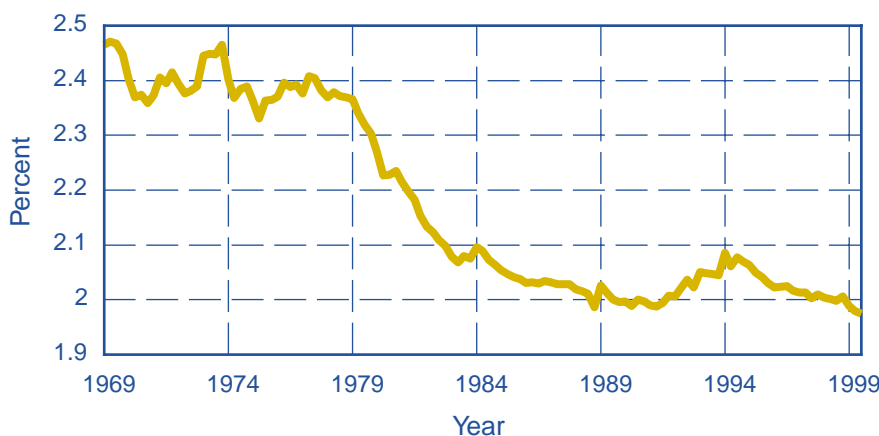


Figure 2: Indiana's Share of U.S. Personal Income

Source: Bureau of Economic Analysis



22% of Hoosier earnings. In terms of growth, Indiana earnings have increased faster than the nation in two of the eight sectors shown. Together, these two sectors account for 40% of Indiana's economy, but their combined advantage did not offset slower growth in the service and construction sectors. Indiana also grew more slowly in finance, insurance and real estate and in transportation and public utilities. As manufacturing continues to be restructured by global competition, our personal income growth will be linked to Indiana's (and the region's) ability to continue its shift to advanced manufacturing and other major sectors not historically centered in the Midwest.

Figure 3: Sources of Personal Income in Indiana and the U.S. 3Q 1999

Source: Bureau of Economic Analysis

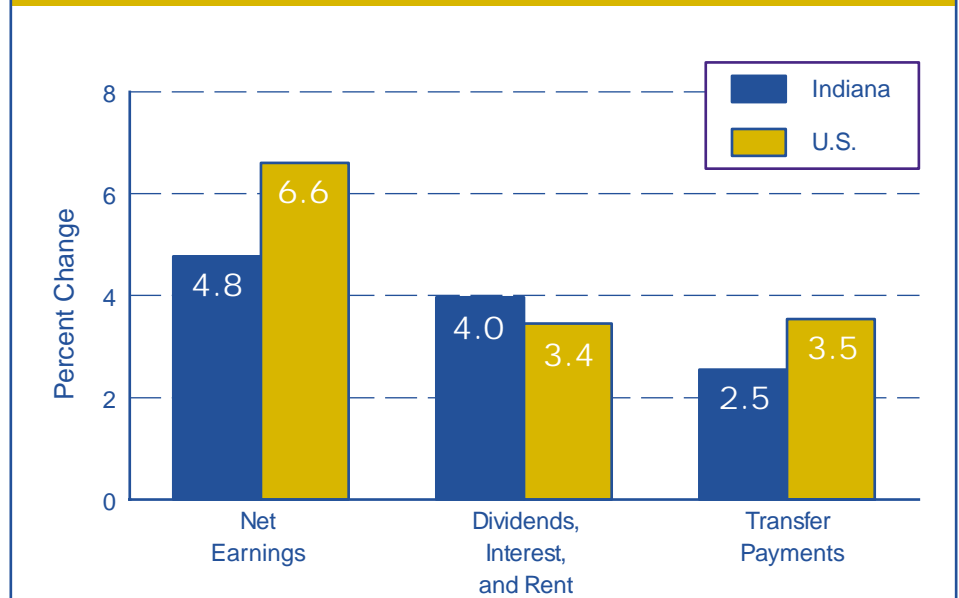


Figure 4: Earnings Growth in Indiana and the U.S. 3Q 1998 - 3Q 1999

Source: Bureau of Economic Analysis

