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For the past 2 years, DC Personal Income has grown more slowly than the US average. Is this the new normal?

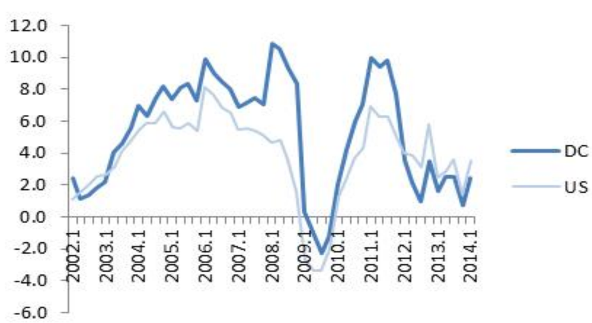
For the preceding 9 years (2003 to 2012) DC's Personal Income had been growing at a faster rate than the US average.

Personal Income is a broad measure of income received by residents of a jurisdiction. It includes income from earnings and most other sources such as rental income or social security except for capital gains. Looking back over the past decade or so, Personal Income in DC mostly grew at a faster rate than in the nation as whole, but this has not been true for the past two years. What should be expected for the years ahead?

Because the US economy was hit harder by the Great Recession than DC, it would be expected that in a recovery period the rest of the economy might grow more quickly as it made up lost ground. After two years, however, one could wonder whether the pattern that had been occurring during the years before and after the recession has experienced something of a permanent shift.

For the nine-year period from the first quarter of 2003 to the first quarter of 2012, the Personal Income of DC residents grew faster (or, in the case of the Great Recession, fell less rapidly) than the US in every quarter. (Growth is measured as percent change from the same quarter of the prior year.) For the last two years, however, DC's Personal Income growth has been less than the US rate of growth in every quarter. In the most recent quarter that ended in March 2014, for example, DC Personal Income was 2.4% higher than the same quarter of 2013 and the US increase was 3.5%

Personal Income in DC and the US: 2002.1 to 2014.1 (% change from the same quarter of the



DC is just a small part of the very large US economy, accounting for only about 0.5% of the nation's employment, and there is no particular reason why Personal Income in DC should be expected to grow faster or slower than in the US as a whole. What happens will be the net result of a number of factors, most beyond the District's control, including the business cycle, national security matters, demographic changes, changes in technology, and capital markets. Several of those factors of particular importance are discussed below. They are (1) federal spending, (2) private sector employment, (3) population, (4) wages and salaries earned in DC, and (5) commuting patterns.

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This briefing document was prepared by Stephen Swaim, DC Office of Revenue Analysis.

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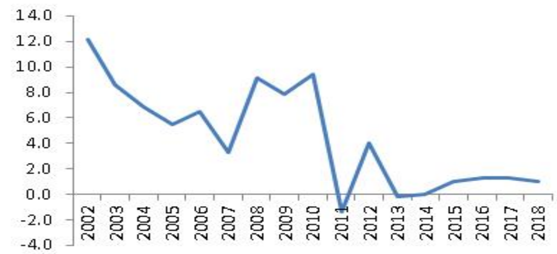
Federal non-defense consumption spending for personnel and all other items: 2002 to 2018 (est.)
(% change from the prior calendar year)



Federal spending. Federal government non-defense consumption spending for things other than entitlements grew over most of the decade of 2000's and contributed to the growth of the DC economy. First there was 9/11 and the recession of 2011, then the Great Recession that started in 2007. As concerns about federal spending grew, the growth in outlays has been cut, including by sequester and similar legislation that will affect spending through 2015. Looking forward, the boost that can be expected in DC from federal spending looks to be quite limited. The accompanying chart shows Global Insight's estimate of spending through 2018, which assumes some increase in spending after 2014, but nowhere near at the rate of earlier years.

Private sector job growth. From June 2002 to June 2014, DC's private sector added 83,000 jobs, a 19.0% increase. By contrast, the US private sector, hit hard by the Great Recession, grew only a net 5.4% over those years. Going forward, Global Insight expects private sector employment growth from 2014 to 2018 to be about 7% in both DC and the US.

Population. DC's population began to grow in 2005. From then until 2013, DC added 79,300 people, a gain of 14.0%, about twice the percentage gain (7.2%) in US population over this period. Going forward, Global Insight forecasts that DC population growth will slow a bit through 2018, adding another 40,600 (about 8,000 per year) for a 6.3% gain over the next 5 years. The US population is also forecast to grow, but at a 3.9% rate.

Wage and salary earnings. From 2002 to 2013, the percentage growth in wages and salaries earned in DC outpaced that for the US as a whole: 56.7% versus 42.9%. Going forward, Global Insight expects that the combined effect of declining federal employment and the composition of private sector employment will result in a percentage increase in wage and salary earnings that is somewhat higher in the US than in DC: 25.7% versus 20.3%.

Commuter impact. One important factor that has boosted DC Personal Income over the past decade is that a smaller share of income earned in the District has been lost to commuters. From 2002 to 2013, amounts earned in DC by both DC residents and commuters increased 59.2%. But incomes earned by DC residents increased 82.2%. (In addition to more income earned by residents in DC that stayed in DC, amounts earned by DC residents in the suburbs also may have contributed to the rise in resident earnings.) Going forward, from 2013 to 2018 Global Insight suggests that share of income earned by residents will increase, but at a somewhat slower pace: 20.4% gains for amounts earned by everybody in DC versus a 25.4% gain in income earned by DC resident.

To sum up, from 2003.1 to 2012.1, DC Personal Income grew by a percentage considerably greater than the US as a whole: 74.0% versus 45.7%. Over the past two years, however, DC's growth was less than that of the US: 4.0% in the DC versus 6.1% in the US. Going forward, what will be the new normal? Should the expectation be that the percentage growth in DC's Personal Income will be greater than, less than, or about the same as for the nation as a whole?

Obviously there is a considerable amount of uncertainty involved in trying to take account of the factors described above along with other considerations that affect Personal Income in DC and the US. Thus no definite answers can be given. It should be noted, however, that both IHS Global Insight and Moody's Economy.com forecast that from 2014 to 2018 Personal Income in DC and the US will each grow about 22% over the four year period.

—Stephen Swaim, DC Office of Revenue Analysis