

Subject: Long Term Income Trends
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March 3, 2017

This report highlights consumers' responses about the frequency of net income gains and the expected size of future income gains. Financial optimism is supported by income gains that are more frequent and larger, and pessimism, with less frequent and smaller income gains. The data below shows broad trends over the past several decades as well as more recent changes in the past five quarters. The top panel shows the net income response when consumers were asked to describe how the current financial situation had recently changed. The bottom panel represents the median percentage change consumers expected in their household income during the year ahead. To be sure, the data reflect a significant slowdown in income growth over the past several decades. Data for the decade of the 1960s (not shown) recorded net income gains at +24 (% increases - % declines), which fell to +14 in the 1980s and 1990s, and then fell to +9 in the 2000s and to zero net income gains so far in the 2010s. The question on the size of expected income gains was not asked until the late 1970s. In the 1980s, consumers expected a median nominal income increase of 3.7%, which fell to 2.7% in the 1990s, 2.4% in the 2000s, and to 0.5% thus far in the 2010s. To be sure, inflation was much higher in the 1980s (5.6%) and much lower in the decade of the 2010s (1.6%); indeed, in every decade the expected income change for all households was less than the CPI inflation rate.

The data across decades favors younger consumers, with the frequency of income gains nearly equal in the 2010s and 1980s (+28 versus +32). The income data indicate that only those in the top third of the income distribution maintained positive net income gains, although it was quite a bit lower than in the 1980s. Indeed, the frequency of income gains declined by about the same relative amount for all income groups from the 1980s to the 2010s; the main difference was that it amounted to net income declines for those in the bottom two-thirds of the income distribution, with only the top third reporting net gains.

The size of expected income changes was quite dismal and largely unchanging over the decades for those over age 65 and among those with incomes in the bottom third. Only among consumers under age 54 were expected income gains consistently larger, especially among those under 35. The aging baby-boomers are now in the top two age groups, which had much smaller income gains; the millennials, in the youngest age group, are of comparable size but the delayed start to their work careers has not offset the much smaller income gains of aging baby-boomers in the aggregate. Also note that among households with incomes in the top 10%, expected income increases were half as large in the 2010s than in the 1980s (2.5% versus 5.4%).

The more recent quarterly data indicate a much more optimism than on average thus far in the 2010s, with the middle income group posting the largest change in the net frequency of income gains compared with two quarters ago, before Trump was elected (+9 to +22) as well as the largest gain in expected increases (1.6% to 1.9%). If middle income discontent produced Trump's victory, it was the drop in income expectations from 2.6% in the 2000's to just 0.6% in the 2010s, a much larger drop in income expectations than the 0.5 decline in the bottom third or the 1.4 decline in the upper third of the income distribution.

Spontaneous References to Net Income Changes (%Income Higher- %Income Lower)										
		Decades				Quarters				
		1980s	1990s	2000s	2010S(p)	2016:1	2016:2	2016:3	2016:4	2017:1(p)
All Households		14	14	9	0	16	18	12	15	17
Age	18-34	32	32	28	28	49	39	35	37	42
	35-49	16	16	12	4	23	27	19	21	25
	50-64	-1	1	-2	-12	-3	10	-2	6	7
	65+	-4	-7	-5	-7	-6	-4	-1	-3	1
Income	Bottom 1/3	-2	-1	-7	-11	-4	3	0	0	2
	Middle 1/3	16	15	9	-2	19	18	9	17	22
	Top 1/3	31	27	24	14	34	34	26	29	31
	Top 10%	39	33	29	21	43	33	36	34	41
Expected Annual Percentage Change in Household Income (Median)										
All Households		3.7	2.7	2.4	0.5	1.5	1.4	1.4	1.6	1.7
Age	18-34	6.8	4.9	4.7	4.0	4.9	4.6	3.8	4.8	3.9
	35-49	4.9	3.4	3.1	2.1	2.9	3.1	2.9	2.6	2.6
	50-64	0.5	0.8	1.8	0.4	1.1	0.8	1.2	1.2	1.5
	65+	0.1	0.1	0.2	0.0	0.0	0.0	0.1	0.1	0.1
Income	Bottom 1/3	0.4	0.6	0.8	0.3	0.3	0.8	0.5	0.6	0.5
	Middle 1/3	4.3	2.8	2.6	0.6	2.0	1.1	1.6	1.4	1.9
	Top 1/3	5.2	3.6	3.3	1.9	2.7	2.8	2.5	2.9	2.6
	Top10%	5.4	4.6	4.2	2.5	3.1	3.5	2.9	3.2	2.7
Addenda: CPI % (v/v)		5.6	3.0	2.6	1.6	1.1	1.1	1.1	1.8	2.5