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Monitoring trends for over 70 years

Subject: Incomes in Record Expansions April 5, 2019
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This note compares consumers' subjective evaluations of their household incomes near the end of long expansions. The longest expansion since the 1850s lasted 120 months, from 1991 to 2001. The current expansion will equal that record in a few months, and is likely to continue past the 10-year mark. The data used for this comparisons are consumers' unprompted references to recent income gains, the size of anticipated income increases during the year ahead, and how consumers evaluated those anticipated gains when adjusted for expected inflation. The years 1999 and 2018 were selected to represent conditions near the peaks; the following quarter was included as an indicator of whether the change recorded in the prior year continued or was reversed. The Expectations Index reached its cyclical peak in the 1st quarter of 2000; the evidence for the more recent peak is not as definitive as peak levels have been repeatedly reached in the past several years, with the last occasion in September 2018. The most common description of the current expansion is that it has been less favorable than the expansion of the late 1990's, with negative judgements mainly focused on lackluster income gains. BEA reported that real personal disposable income grew by 3.3% in 1999 and by 2.9% in 2018. The year-ahead expected inflation in 2018 was just one-tenth of a percentage point higher in 2018 than in 1999, and the actual CPI was just two-tenths higher in 2018. Given that income inequality has grown over the past two decades, it is of some interest to determine how various income subgroups fared. Another issue is whether slower income growth among younger workers has affected their income assessments.

Across all households, the frequency of income gains was spontaneously cited by equal proportions in 1999 and 2018—by 42%, with no change in the following quarter. The size of the expected increase in household income was significantly higher in 1999 than in 2018, however, and the deficit grew slightly larger in the 1st quarters of the following years—from a difference of 0.8 percentage points to a full percentage point in early 2019 from early 2000. In contrast, real income expectations were somewhat lower in 2018 than in 1999, but that gap largely disappeared in the 1st quarter of 2019. While consumers were aware of the slowdown in nominal income growth, the data suggest that consumers exaggerate the benefits of low inflation.

Income judgements respond to both the distribution of income as well as to changes in the evaluative criteria used by each subgroup, with the latter having a surprising impact. All income subgroups reported lower expected year-ahead income gains in 2018 than in 1999. The widest difference, however, was reported by households with incomes in the top 20% and the top 10%. Among those with incomes in the top 20%, the expected gain in year-ahead household income declined from 4.5% in 1999 to 3.2% in 2018, with the gap remaining nearly as wide in the 1st quarters of the following years. The same was true for the top 10%: expected income increases of 4.9% in 1999 fell to 3.6% in 2018, although the gap narrowed in early 2019.

Age differences in income gains are consistent with longstanding economic theory, with the size of gains the largest at younger ages and smallest among older workers. Among those under age 35, the data show no differences between 1999 and 2018 as well as in the following 1st quarters as the majority in each period reported income gains and more frequently than any other age subgroup. Among those aged 35 or older, the 2019 data generally indicate more frequent reports of income gains in 2018 than in 1999, with the advantage generally somewhat smaller in the following year's 1st quarter surveys. Year-ahead expected income gains were highest among those under age 35, and declined as age increased. For 1999 and 2018, the difference was about 0.5 percentage points in expected income increases for those under age 65. Real income expectations were only positive for those under age 35, and least favorable for those 65 or older.

Subjective Income Assessments in Long Expansions

	Cited Recent Income Gains (Percent of Households)				Expected Gains in Nominal Incomes (Annual Percent)				Real Income Expectations (%Increase - %Decrease Plus 100)			
	1999	**2000:Q1**	**2018**	**2019:Q1**	**1999**	**2000:Q1**	**2018**	**2019:Q1**	**1999**	**2000:Q1**	**2018**	**2019:Q1**
All	42%	43%	42%	42%	2.9%	3.2%	2.1%	2.2%	93	95	87	94
Household Income												
Bottom 20%	22	20	25	23	1.5	0.9	0.9	0.6	80	79	67	68
Second 20%	34	31	33	38	2.4	2.3	1.5	1.7	79	78	72	81
Middle 20%	45	51	47	45	2.8	4.3	2.2	2.1	91	98	88	93
Fourth 20%	52	58	51	50	3.4	4.0	2.7	2.4	94	98	98	100
Top 20%	62	64	56	57	4.5	4.7	3.2	3.6	121	129	114	131
Top 10%	69	66	59	61	4.9	5.1	3.6	4.1	132	146	123	140
Age												
18 - 34	59	65	58	64	4.9	5.3	4.3	5.7	112	115	108	123
35 - 44	51	47	51	55	3.8	3.8	3.3	3.0	99	100	102	110
45 - 54	41	47	48	47	3.2	3.8	2.7	2.6	89	94	96	96
55 - 64	30	33	37	35	1.7	1.5	1.2	0.9	77	81	76	77
65 or older	13	14	21	19	-0.1	-1.0	0.3	0.3	68	71	64	72