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Index of State Economic Momentum

The Index of State Economic Momentum ranks states based on their most recent performance on three key measures of economic vitality: personal income growth, employment growth, and population growth. *Reports* updates the index each quarter. In this update, **Idaho** remained in the top spot, while **Minnesota** most closely approximated the national average economic performance.

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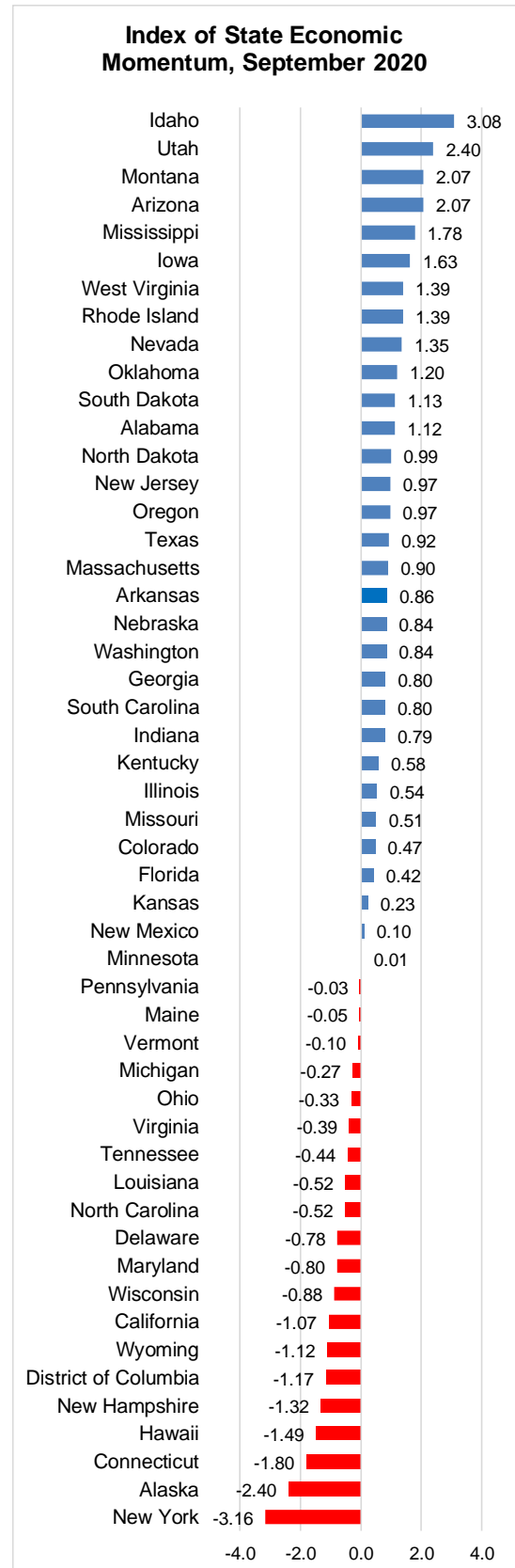
INDEX OF STATE ECONOMIC MOMENTUM

The Index of State Economic Momentum, developed by *Reports* founding editor Hal Hovey, ranks states based on their most recent performance on three key measures of economic vitality: personal income growth, employment growth, and population growth. *Reports* updates the index each quarter. Measures of the three components are averaged, and the national average is set at zero. Each state's score is then expressed as a percentage above or below the national average.

The chart on the right shows the results based on the most recent data, which reflect a huge influx of federal payments to individuals in response to COVID-19. In that sense, the current index only partly reflects economic momentum, since the federal payments boosted personal income the most in states with high unemployment and not states with relatively strong economies. In this update, **Minnesota** was closest to the national average economic performance, exceeding it by 0.01%. **Idaho** remained in the #1 spot and **New York** fell by one rank to #51 (replacing **Hawaii**).

The last update highlighted states that were affected early in the COVID-19 pandemic. It is still true that most of the states that lag the national economic momentum are those that had large outbreaks of COVID-19—and widespread shutdowns—in the early months.

As in June, the index deviates from the typical pattern of states clustered around the national average, but to a lesser extent. In June, just 19 states fell within 1% of the national momentum; in September, the number has increased to 31. Like last time, the states with the greatest momentum are predominantly small states. Many had a less severe or later outbreak of COVID-19, and some did not shut down their economies to the extent that the early-outbreak states did.



Thirty-one states exceeded the national average economic performance and 19 states plus the District of Columbia lagged it. As in the last update, some large state economies recorded weak results, including **New York, California, North Carolina, Virginia, Ohio, Michigan, and Pennsylvania.**

That said, there is some movement toward the average. In the June update, 14 states lagged the national average by 1% or more, with six of those lagging it by 2% or more, of which one lagged by more than 3%. In September, eight states lagged by more than 1%, including only one lagging by more than 2% (**Alaska**) and one by more than 3% (**New York**).

The same is true among states that beat the average. In the June update, 18 states exceeded the national economic momentum by more than 1%; that number has dropped to 12, with **Idaho, Utah, Montana, and Arizona** the only states to exceed it by more than 2%.

None of the 10 states with the highest populations ranks among the states with the strongest momentum. **Texas** ranks highest among this group (#16), compared to its #5 ranking last time.

PERSONAL INCOME

The chart on page 4 shows the state detail on the first component of the Index of State Economic Momentum. Prepared by the Bureau of Economic Analysis (BEA), state personal income is the income received by all persons in a state from all sources, including net earnings, rental income, dividends, interest, and transfer payments. Between the second quarters of 2019 and 2020, personal income grew an astonishing 10.4%, up from 3.3% in the last update.

The increase reflects a tsunami of federal assistance included in early congressional action to mitigate the effects of COVID-19, including:

- A \$1,200 Economic Impact Payment, made to qualifying taxpayers, plus \$500 for each qualifying child, which was a one-time payment that may be part of future relief measures but has not been repeated to date
- Federal Pandemic Unemployment Assistance, which provided \$600 weekly on top of regular state unemployment compensation through late July

According to BEA's press release, "Transfer receipts increased \$2.5 trillion for the nation in the second quarter of 2020, after increasing \$80.3 billion in the first quarter. The increase in transfer receipts reflected increases in state unemployment insurance compensation, all other transfer receipts and Medicaid benefits." While net earnings accounted for -21.8% of the change in personal income between the first and second quarters of 2020, transfer receipts accounted for +58% of it.

The varying impact of the economic fallout caused by COVID-19 plus differences in the structure and timing of transfer payments help to explain the wide variation in annual personal income growth among states, which ranged from 5.7% in **Connecticut** to 17.3% in **Massachusetts**. Specifically:

- ✓ States more severely affected by shutdowns likely had a larger hole to fill, so the transfer payments—while helpful—were not a windfall. **New York** is a good example. Conversely, states less affected, such as **Iowa**, saw a big boost from the large influx of federal funds on top of ongoing economic activities.
- ✓ In states with high personal incomes, the large federal payments helped to replace lost income but did not necessarily increase it substantially. **Connecticut** is such a state. In lower-income states, such as **West Virginia**, the large federal payments likely raised income above its baseline.

- ✓ Timing is the wild card. States that were quick to deploy unemployment insurance payments—both state and federal—probably saw a bigger impact on second quarter income than states that struggled to get their systems operational. Presumably, states that lagged in the second quarter will see an uptick in the third quarter.

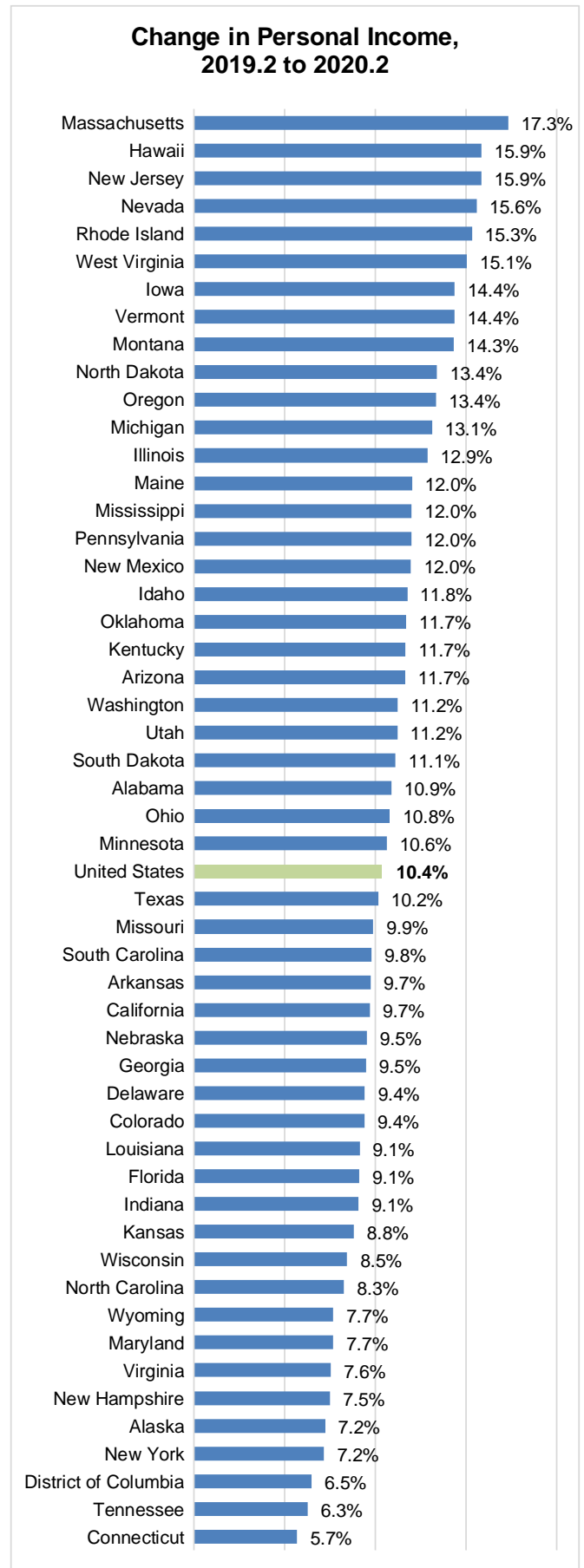
Each of these factors affected state results but it's hard to know how they interacted or which effect dominated. For example, top-ranking **Massachusetts** was part of the early COVID-19 outbreak and shutdown, but so was bottom-ranking **Connecticut**. Both are high-income states in the same geographic region. According to BEA, transfer receipts accounted for 104.5% of Massachusetts's change in personal income between the first and second quarters of 2020; for Connecticut, that figure was 43%.

Given the uncertainty of future transfer payments, personal income data will probably continue to send mixed signals in the months ahead. That said, next quarter's results may be less dramatic than these, as one-time payments and supplemental federal unemployment insurance have run their course, at least for the time being.

EMPLOYMENT

The chart on page 5 displays the employment situation. Between August 2019 and August 2020, national annual employment changed -7%, an improvement from a -11.8% change in the June update (which was based on May employment data). Annual employment changes ranged from -0.7% in **Idaho** to -16.1% in **Hawaii**.

The states with the largest and smallest job losses are largely unchanged since the last update, with big losses in the Northeast and other states with the first large outbreaks of COVID-19, plus states reliant on affected industries such as tourism and manufacturing. The states least affected tend to be smaller and more rural. In many cases they

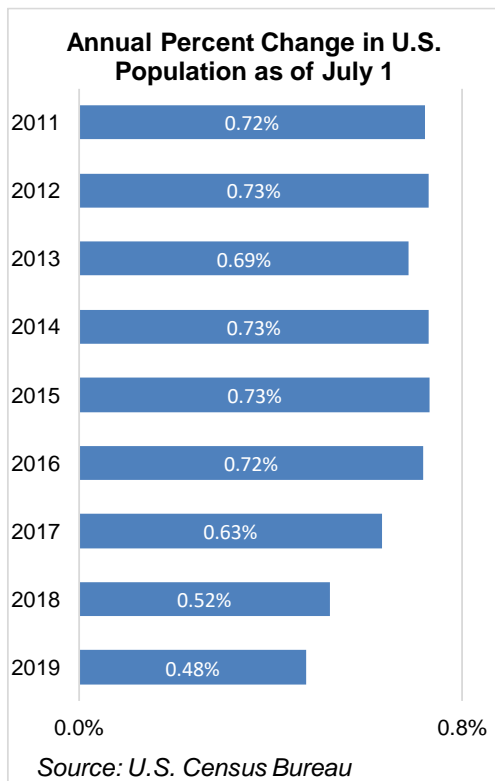


implemented more limited shutdowns. Also, some of them have relatively small tourism sectors, so they have not had to endure the massive disruption that industry has experienced.

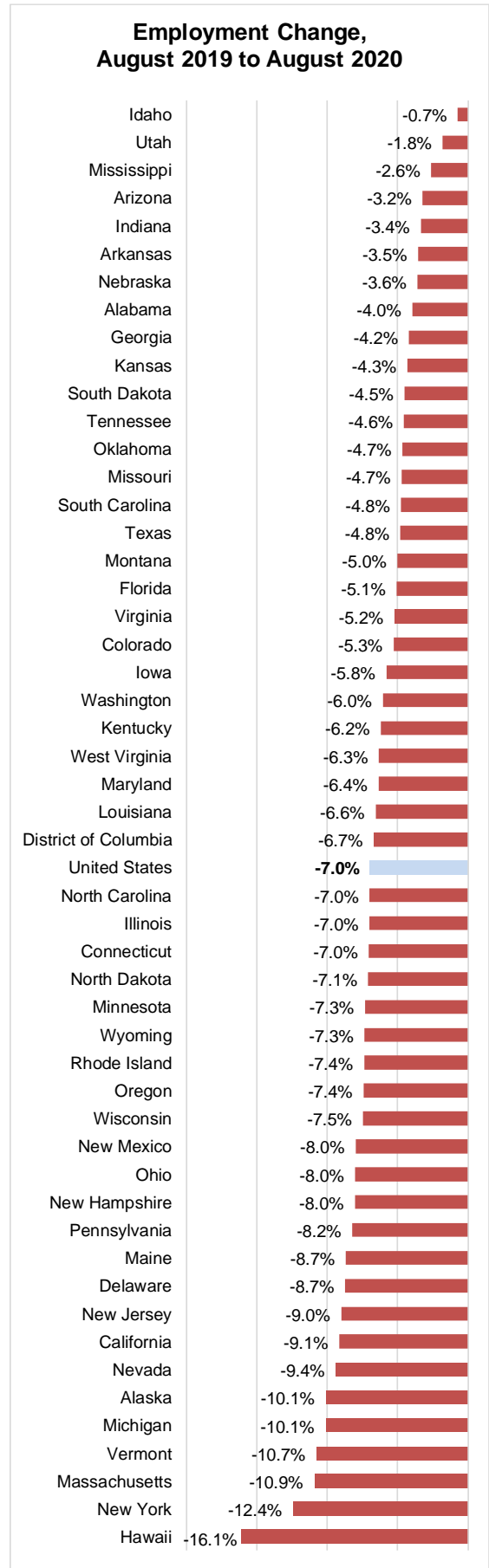
Only three of the 10 most populous states fared better than the nation on the employment front (**Georgia, Texas, and Florida**), while three from this group ranked among the 10 states with the largest job losses (**New York, and Michigan, and California**).

POPULATION

The final component of the Index of State Economic Momentum is the change in state population. Population estimates for July 1, 2019, were released in December 2019. The chart on page 6 displays the annual percent change in population by state. The 2019 estimates continued a string of weak population growth rates, as shown in the chart below.



Not only was 2019's growth rate of 0.48% the lowest in recent years, but the 2018 estimate was



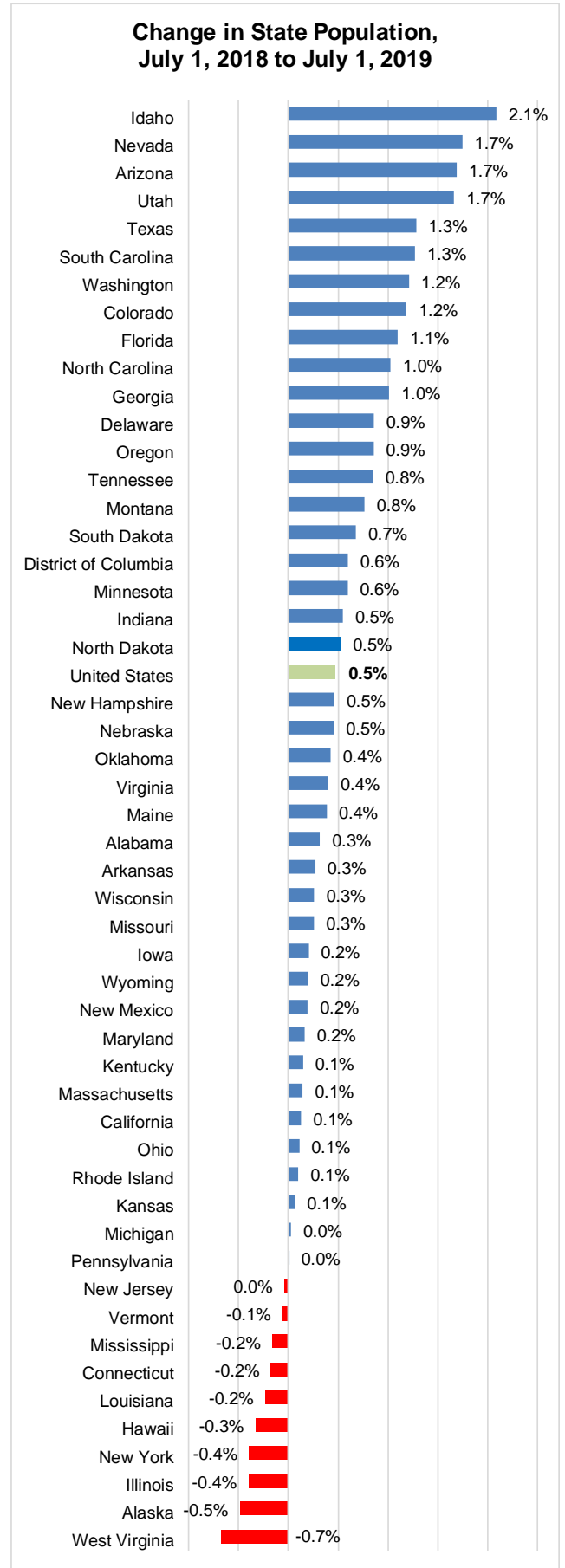
revised downward from 0.62%. Prior to the Great Recession, population growth rates were typically close to 1% per year.

Idaho reclaimed the #1 position from **Nevada** on the strength of 2.1% annual growth, the only state to exceed 2%. There are no surprises among the states with the strongest population growth; the same states have dominated the top ranks on the table for some time.

The same is largely true for the 10 states estimated to have lost population in 2019: **West Virginia, Alaska, Illinois, New York, Hawaii, Louisiana, Connecticut, Mississippi, Vermont,** and **New Jersey**. All but Vermont and New Jersey also lost population in 2018.

Every region is represented among the states losing population, but the prevailing trend is a shift in population from the North and East to the South and West. The 15 states with the strongest population growth are in one of these two regions, while the top-ranking state outside the Census Bureau-defined West or South is #16 **South Dakota**, for the second year in a row. Slow population growth—including a few declines—in five of the 10 most populous states outside the West and South underscores the trend.

State Shares and Ranks. The table on page 7 lists the July 2019 state population estimates and rankings. It also lists each state’s share of the national population and the cumulative total population. As in previous years, the nine most populated states accounted for more than half the nation’s total population. Less than 10% of the population resides in the 21 least populous states (including the District of Columbia).



State Population, Share of National Population, and Cumulative Population, 2019

Rank	State	Population	Share	Cumulative Total
1	California	39,512,223	12.0%	
2	Texas	28,995,881	8.8%	20.9%
3	Florida	21,477,737	6.5%	27.4%
4	New York	19,453,561	5.9%	33.3%
5	Pennsylvania	12,801,989	3.9%	37.2%
6	Illinois	12,671,821	3.9%	41.1%
7	Ohio	11,689,100	3.6%	44.7%
8	Georgia	10,617,423	3.2%	47.9%
9	North Carolina	10,488,084	3.2%	51.1%
10	Michigan	9,986,857	3.0%	54.1%
11	New Jersey	8,882,190	2.7%	56.8%
12	Virginia	8,535,519	2.6%	59.4%
13	Washington	7,614,893	2.3%	61.8%
14	Arizona	7,278,717	2.2%	64.0%
15	Massachusetts	6,892,503	2.1%	66.1%
16	Tennessee	6,829,174	2.1%	68.2%
17	Indiana	6,732,219	2.1%	70.2%
18	Missouri	6,137,428	1.9%	72.1%
19	Maryland	6,045,680	1.8%	73.9%
20	Wisconsin	5,822,434	1.8%	75.7%
21	Colorado	5,758,736	1.8%	77.5%
22	Minnesota	5,639,632	1.7%	79.2%
23	South Carolina	5,148,714	1.6%	80.7%
24	Alabama	4,903,185	1.5%	82.2%
25	Louisiana	4,648,794	1.4%	83.6%
26	Kentucky	4,467,673	1.4%	85.0%
27	Oregon	4,217,737	1.3%	86.3%
28	Oklahoma	3,956,971	1.2%	87.5%
29	Connecticut	3,565,287	1.1%	88.6%
30	Utah	3,205,958	1.0%	89.6%
31	Iowa	3,155,070	1.0%	90.5%
32	Nevada	3,080,156	0.9%	91.5%
33	Arkansas	3,017,804	0.9%	92.4%
34	Mississippi	2,976,149	0.9%	93.3%
35	Kansas	2,913,314	0.9%	94.2%
36	New Mexico	2,096,829	0.6%	94.8%
37	Nebraska	1,934,408	0.6%	95.4%
38	West Virginia	1,792,147	0.5%	95.9%
39	Idaho	1,787,065	0.5%	96.5%
40	Hawaii	1,415,872	0.4%	96.9%
41	New Hampshire	1,359,711	0.4%	97.3%
42	Maine	1,344,212	0.4%	97.7%
43	Montana	1,068,778	0.3%	98.1%
44	Rhode Island	1,059,361	0.3%	98.4%
45	Delaware	973,764	0.3%	98.7%
46	South Dakota	884,659	0.3%	99.0%
47	North Dakota	762,062	0.2%	99.2%
48	Alaska	731,545	0.2%	99.4%
49	District of Columbia	705,749	0.2%	99.6%
50	Vermont	623,989	0.2%	99.8%
51	Wyoming	578,759	0.2%	100.0%
	United States	328,239,523	100.0%	

UNEMPLOYMENT RATES

State unemployment rates for August 2020 are shown on the right. Unemployment rates are not a component of the Index of State Economic Momentum, but they are an important indicator of a state's economic condition. As in the last update, **Nebraska** had the lowest unemployment rate, which improved from 5.2% to 4%. **Nevada** still had the highest unemployment rate, but it improved markedly, from 25.3% to 13.2%.

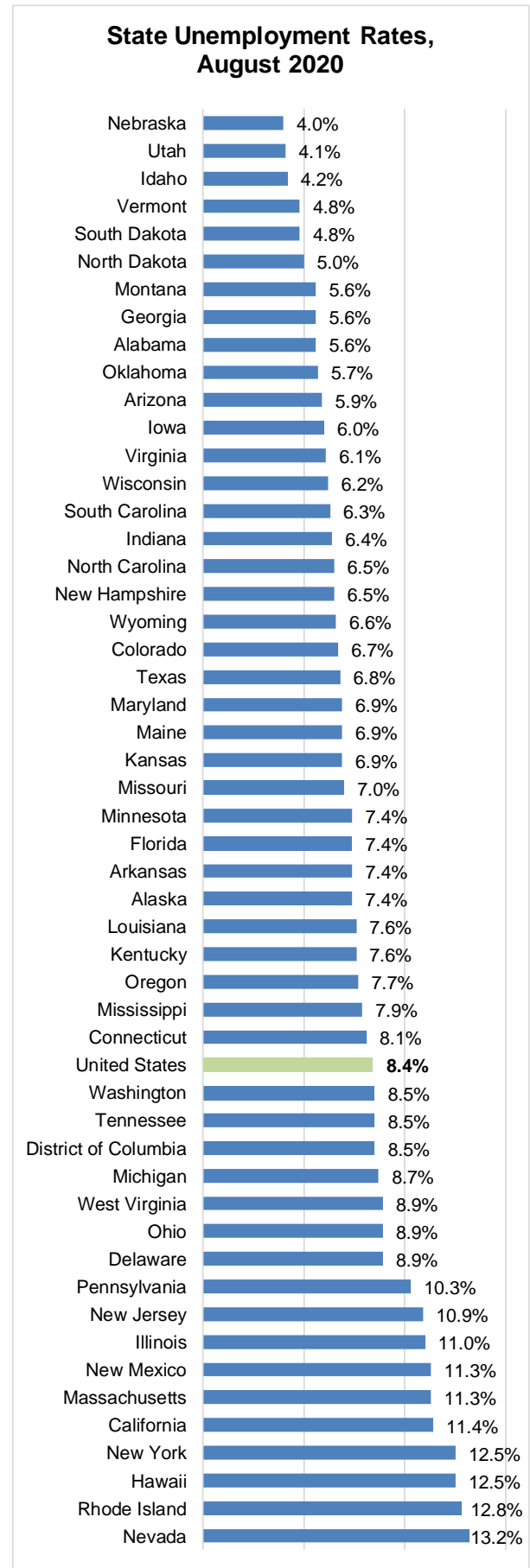
Nationally, the unemployment rate fell since the June update (which reported May 2020 numbers) from 13.3% to 8.4%. Thirty-four states had rates lower than the national rate and 16 plus the District of Columbia had higher rates.

Among the 10 most populous states, **Georgia** had the lowest unemployment rate (5.6%). It was joined by three more from this group of 10 with unemployment rates lower than the national rate: **North Carolina, Texas, and Florida**. At the other extreme, **New York, California, Illinois, and Pennsylvania** had unemployment rates among the 10 highest in the nation, all exceeding 10%.

THE NEXT UPDATE: WHAT TO EXPECT

The June update speculated that this update would likely reflect better employment data plus the impact of federal unemployment and other assistance. And it does. While the employment data provide a good barometer of states' abilities to successfully reopen their economies and get people back to work, the personal income data can be confounding. Federal transfer payments were the decisive factor in personal income growth in this update, while earnings were dispiriting. What will the next quarter bring, with no Economic Impact Payment, partial federal unemployment payments, and ever-present timing issues?

Congress is currently debating additional fiscal assistance, which, if enacted, will likely include additional relief payments and unemployment assistance, patterned after the early relief



measures. As the personal income data show, these proved hugely successful in buoying second quarter personal income. Moreover, those transfers have helped to sustain state tax revenues.

Going forward, another factor in play will be the 2020 census, which will produce new state population counts at the end of the year. These decennial counts can lead to big adjustments in state population changes, affecting index results.

But the big unknown remains the nature of the economic recovery. Given the unpredictability of federal aid (in both magnitude and duration), the up-and-down nature of COVID-19 infections, and varying state actions on reopening, it will be some time before the nature of the recovery reveals itself. Employment data will be telling. Through it all, the index will report its usual measures, with the caveat that “economic momentum” may be a bit of a misnomer for quite some time.

TECHNICAL NOTES

State Economic Momentum. The Bureau of Economic Analysis (www.bea.gov) publishes quarterly state personal income data. Employment levels are published by the Bureau of Labor

Statistics (BLS) (www.bls.gov), as are state unemployment rates. Population counts and estimates are available at www.census.gov.

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