

POPULATION NOTES

March 1995

OSD 95-75

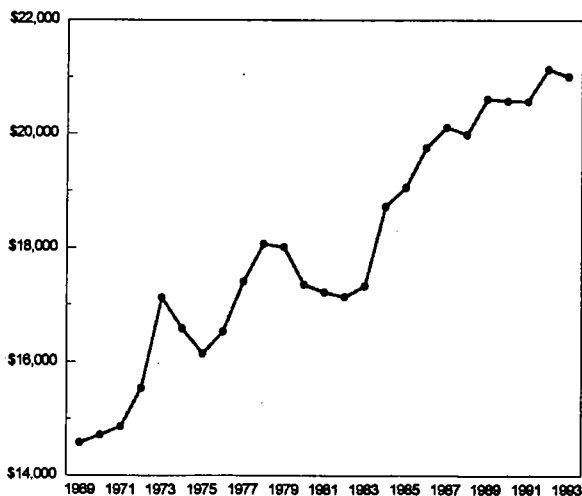
FARM INCOME SPURS PERSONAL INCOME GROWTH

Barbara Ronningen

Since 1988, personal income has been on a roller coaster in Minnesota. After adjusting for inflation, per capita personal income declined 0.7 percent in 1988 but grew 3.2 percent in 1989. The next two years saw declines of 0.2 and 0.1 percent, respectively. Then in 1992, real per capita income grew 2.7 percent, but dropped by 0.6 percent in 1993. Personal income is an estimate of income received by residents of a state; it does not refer to actual income received by actual individuals.

While data are not yet available for 1994, many economists expect significant growth in per capita income. The national economy was robust in 1994, and Minnesota farmers had a bumper crop. Finally, disaster relief payments for losses due to the floods and poor growing conditions of 1993 were not made until early in 1994. This accounting effect will push growth in per capita income even higher for Minnesota and other Midwestern states hit by floods in 1993.

Per Capita Income in Minnesota
(constant 1993 dollars)



Personal Income at a Glance...

- Minnesota's per capita income grew 6.4 percent from 1991 to 1992 but increased only 2.5 percent from 1992 to 1993, reflecting the devastating effects of flooding in the state.
- The strongest growth in per capita personal income in 1992 occurred in the state's westernmost counties.
- Farm personal income rose markedly in 1992, especially in northwestern Minnesota counties.
- Asset income (interest, dividends and rent) declined slightly in 1992, while transfer income (pensions, disability, medical, unemployment and welfare payments) increased 8.3 percent.
- Income from wages and salaries went up 6.9 percent from 1991 to 1992, or twice as fast as inflation.

From 1982 to 1992, Minnesota per capita income averaged annual growth, after adjusting for inflation, of 2.1 percent. But from 1988 to 1992, average annual growth was only 1.4 percent, and per capita income declined in three of the five years. Much of the volatility in per capita income in Minnesota can be attributed to wide swings in farm income. A severe drought in 1988 resulted in per capita income declining 0.7 percent from the previous year. A strong farm recovery in 1989 boosted per capita income growth to 3.2 percent. Similarly, in 1992, recovery in farm income following two years of declines spurred per capita income growth to 2.7 percent.

MN PLANNING

Personal Income in Midwest Lags in 1993

In 1993, the District of Columbia had the highest per capita income in the nation (\$29,836), followed by Connecticut and New Jersey. Mississippi had the lowest per capita income (\$14,708), less than half that of the District of Columbia. Average per capita income for all states was \$20,781, about \$240 less than for Minnesota (\$21,017).

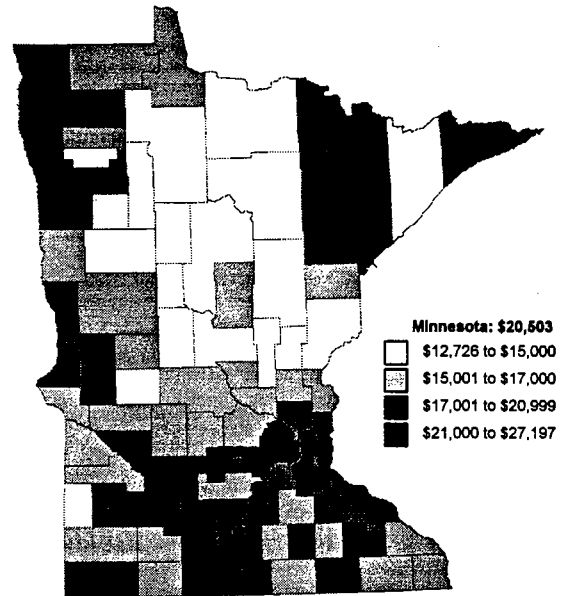
Montana had the highest growth in per capita income from 1992 to 1993 (6.3 percent), followed by the District of Columbia, New Mexico, Florida and Idaho. Each of these states saw per capita personal income increase by more than 5 percent. Minnesota's growth rate for per capita income (2.5 percent) was 45th in the nation. Nationally, growth of per capita income averaged 3.2 percent. North Dakota's per capita income declined slightly, and Iowa's increased only 0.8 percent. The floods and poor growing season in 1993 were reflected in slow personal income growth in Minnesota, Iowa and North Dakota, states where farm income changes have substantial effects on total personal income.

From 1983 to 1993, per capita income in the United States increased 70 percent (not adjusted for inflation). Minnesota exceeded the national average with growth of 74.3 percent. Per capita income increased fastest in the District of Columbia (93.4 percent), followed by Tennessee, North Carolina and South Dakota. Alaska had the slowest growth over the decade at only 28.4 percent. Oklahoma, North Dakota, California, Louisiana and Texas had per capita income growth less than 60 percent over this 10-year period. These states were hit hard by downturns in oil and coal production and cutbacks in defense. Growth in per capita income was especially strong in eastern states following several years of very slow income growth. Only two of the top 15 states — South Dakota (fourth) and Hawaii (ninth) — were not east of the Mississippi River.

Highest Personal Income in Hennepin County

Minnesota per capita personal income exceeded \$20,000 for the first time in 1992. At \$20,503, per capita income increased \$1,200 or 6.4 percent over the 1991 level. Hennepin County's per capita income was \$27,197 in 1992 or \$6,700 more than the state average and \$4,100 more than Ramsey, the second highest county. Dakota, Kittson, Olmsted, Traverse, Carver and Washington counties all had per capita personal income higher than the state average. Kittson County is a newcomer to the top five for per capita income. Traverse County moved from seventh in 1991 to sixth in 1992. In 1991, per capita income in these two counties was less than the state average, but because of strong farm income in 1992, they ranked fourth and sixth.

Per Capita Income: 1992



Per capita personal income in Clearwater County was \$12,726, just 47 percent of per capita income in Hennepin County. In Mahnomon, Pine, Todd and Morrison counties, per capita income was less than 50 percent of Hennepin County. Red Lake County, ranked 85th in 1991, saw per capita income grow by 16.6 percent in 1992 and ranked 76th. Most of the increased income came from strong farm income, but Red Lake County also had a larger than average increase in transfer income.

Banner Farm Year Boosts Personal Income

Farm income growth was exceptionally strong in 1992 and drove personal income growth rates in counties heavily dependent on agriculture. Farm income is a relatively small percentage of total personal income in Minnesota (only 1.6 percent in 1992), but in 13 counties, it makes up more than one-fifth of all personal income. In another 13, farm income equals more than 15 percent of total personal income. Many of the state's industries and much of its trade depend heavily on agriculture. As a result, changes in farm income have profound effects on Minnesota personal income.

The most rapid growth in personal income occurred in northwestern Minnesota counties. In nine counties, all but one in northwestern Minnesota, personal income increased at rates more than twice the state average (6.4 percent). In Kittson and Marshall counties in far northwestern Minnesota, personal income increased at more than five times the rate for the state as a whole. Farm income in Kittson County in 1992 made up 29.6 percent of total personal income and in Marshall County, 21.5 percent.

Counties with the slowest rates of growth were in southwestern Minnesota, an area that had a very

Per Capita Income for Minnesota Counties

	1982	1990	1991	1992	Percent Change			
					1982-1992	1989-1990	1990-1991	1991-1992
Minnesota	\$11,548	\$18,784	\$19,276	\$20,503	77.5 %	5.3 %	2.6 %	6.4 %
County								
Aitkin	7,882	12,614	13,199	13,684	73.6	7.6	4.6	3.7
Anoka	11,003	16,872	17,046	17,913	62.8	3.4	1.0	5.1
Becker	7,665	13,297	13,459	14,085	83.8	6.8	1.2	4.7
Beltrami	7,483	12,674	13,251	13,824	84.7	6.8	4.6	4.3
Benton	8,988	14,315	14,338	15,269	69.9	3.2	0.2	6.5
Big Stone	7,633	14,761	15,555	16,789	120.0	6.4	5.4	7.9
Blue Earth	9,649	15,298	15,736	17,209	78.4	5.0	2.9	9.4
Brown	9,864	16,261	16,904	18,026	82.7	3.9	4.0	6.6
Carlton	8,900	13,516	14,213	15,299	71.9	6.3	5.2	7.6
Carver	11,891	20,238	20,033	21,322	79.3	4.5	-1.0	6.4
Cass	8,023	12,737	13,286	14,058	75.2	5.5	4.3	5.8
Chippewa	9,073	16,380	16,258	17,073	88.2	10.9	-0.7	5.0
Chisago	10,291	15,267	15,441	16,012	55.6	2.8	1.1	3.7
Clay	9,258	13,791	14,008	15,277	65.0	7.7	1.6	9.1
Clearwater	6,726	11,109	11,979	12,726	89.2	4.8	7.8	6.2
Cook	9,448	16,611	17,325	18,242	93.1	9.0	4.3	5.3
Cottonwood	10,387	15,466	15,507	16,496	58.8	-0.3	0.3	6.4
Crow Wing	9,060	14,625	15,170	15,913	75.6	5.4	3.7	4.9
Dakota	12,918	20,995	21,275	22,445	73.7	3.9	1.3	5.5
Dodge	9,618	15,848	15,885	16,749	74.1	3.5	0.2	5.4
Douglas	8,715	14,087	14,443	15,397	76.7	5.3	2.5	6.6
Faribault	10,122	16,058	15,813	17,308	71.0	0.5	-1.5	9.5
Fillmore	9,567	14,720	15,203	15,336	60.3	3.9	3.3	0.9
Freeborn	10,384	15,381	15,549	16,723	61.0	0.2	1.1	7.6
Goodhue	10,402	16,553	17,249	18,729	80.1	4.3	4.2	8.6
Grant	8,951	15,504	16,187	18,765	109.6	10.0	4.4	15.9
Hennepin	14,903	24,738	25,377	27,197	82.5	5.5	2.6	7.2
Houston	9,400	15,759	15,779	16,479	75.3	5.8	0.1	4.4
Hubbard	7,887	12,537	13,028	13,648	73.0	6.5	3.9	4.8
Isanti	9,378	14,820	15,148	16,132	72.0	3.7	2.2	6.5
Itasca	8,651	13,424	14,119	14,690	69.8	6.5	5.2	4.0
Jackson	9,393	16,022	15,247	15,871	69.0	-0.3	-4.8	4.1
Kanabec	8,153	12,789	13,375	14,264	75.0	2.9	4.6	6.6
Kandiyohi	9,444	15,597	16,175	16,824	78.1	7.0	3.7	4.0
Kittson	10,050	19,286	16,164	21,991	118.8	14.3	-16.2	36.0
Koochiching	8,550	13,981	14,070	14,858	73.8	15.3	0.6	5.6
Lac Qui Parle	8,300	15,656	15,958	16,886	103.4	6.4	1.9	5.8
Lake	8,581	13,141	14,096	14,781	72.3	8.1	7.3	4.9
Lake of the Woods	8,224	14,484	14,683	15,292	85.9	8.6	1.4	4.1
Le Sueur	9,935	15,678	15,815	17,018	71.3	4.0	0.9	7.6
Lincoln	8,189	14,292	15,023	14,956	82.6	3.8	5.1	-0.4
Lyon	9,762	15,999	17,178	18,547	90.0	5.0	7.4	8.0

Per Capita Income for Minnesota Counties (continued)

	1982	1990	1991	1992	Percent Change			
					1982-1992	1989-1990	1990-1991	1991-1992
McLeod	10,235	16,088	16,664	18,098	76.8 %	3.9 %	3.6 %	8.6 %
Mahnomen	6,560	12,197	11,441	12,852	95.9	19.5	-6.2	12.3
Marshall	8,365	14,998	12,884	17,188	105.5	20.6	-14.1	33.4
Martin	10,846	16,996	16,430	18,121	67.1	4.0	-3.3	10.3
Meeker	9,683	14,852	15,151	15,879	64.0	7.3	2.0	4.8
Mille Lacs	9,068	13,658	13,833	14,635	61.4	4.7	1.3	5.8
Morrison	7,621	12,334	12,564	13,417	76.1	4.3	1.9	6.8
Mower	11,204	16,670	17,697	18,695	66.9	6.9	6.2	5.6
Murray	9,517	15,604	15,820	16,828	76.8	-3.4	1.4	6.4
Nicollet	9,123	15,363	15,721	17,038	86.8	4.7	2.3	8.4
Nobles	10,292	17,029	17,438	17,726	72.2	1.7	2.4	1.7
Norman	9,326	17,281	15,485	18,662	100.1	25.0	-10.4	20.5
Olmsted	13,004	19,923	20,617	21,595	66.1	6.0	3.5	4.7
Otter Tail	8,766	14,271	14,600	15,477	76.6	7.5	2.3	6.0
Pennington	9,167	14,824	14,977	16,475	79.7	13.4	1.0	10.0
Pine	7,771	11,800	12,374	13,083	68.4	3.6	4.9	5.7
Pipestone	9,209	15,006	15,962	16,004	73.8	3.4	6.4	0.3
Polk	9,434	15,545	15,138	17,164	81.9	12.2	-2.6	13.4
Pope	8,433	13,247	13,277	14,518	72.2	5.7	0.2	9.3
Ramsey	13,198	20,576	21,766	23,129	75.2	5.6	5.8	6.3
Red Lake	7,214	12,614	12,215	14,245	97.5	10.5	-3.2	16.6
Redwood	9,227	16,493	16,519	17,698	91.8	3.9	0.2	7.1
Renville	9,556	16,286	16,793	17,616	84.3	2.0	3.1	4.9
Rice	9,598	15,180	15,627	16,426	71.1	6.3	2.9	5.1
Rock	9,777	17,899	18,023	18,464	88.9	2.4	0.7	2.4
Roseau	8,188	15,997	15,063	16,930	106.8	10.3	-5.8	12.4
St. Louis	10,017	15,590	16,409	17,426	74.0	6.0	5.3	6.2
Scott	11,785	18,182	18,536	19,657	66.8	3.7	1.9	6.0
Sherburne	9,427	14,873	15,136	15,647	66.0	3.8	1.8	3.4
Sibley	8,973	14,734	14,662	15,474	72.5	0.1	-0.5	5.5
Stearns	9,071	14,448	15,124	16,178	78.3	4.4	4.7	7.0
Steele	10,725	17,102	17,430	18,414	71.7	5.2	1.9	5.6
Stevens	8,340	15,670	16,061	17,192	106.1	3.9	2.5	7.0
Swift	8,266	14,574	15,081	15,935	92.8	4.9	3.5	5.7
Todd	7,543	12,121	12,496	13,361	77.1	6.8	3.1	6.9
Traverse	8,269	18,406	18,621	21,408	158.9	9.5	1.2	15.0
Wabasha	9,743	16,285	16,482	17,541	80.0	5.8	1.2	6.4
Wadena	7,438	11,831	12,284	13,278	78.5	4.5	3.8	8.1
Waseca	10,317	15,597	15,685	16,393	58.9	3.1	0.6	4.5
Washington	12,597	20,357	20,253	20,758	64.8	3.8	-0.5	2.5
Watsonwan	10,305	15,606	15,020	17,065	65.6	2.9	-3.8	13.6
Wilkin	8,854	14,548	14,772	17,513	97.8	8.1	1.5	18.6
Winona	9,580	15,480	15,918	16,850	75.9	7.6	2.8	5.9
Wright	9,946	15,771	16,084	16,822	69.1	3.6	2.0	4.6
Yellow Medicine	8,543	15,342	15,756	16,318	55.6	5.3	2.7	3.6

wet growing season in 1992. Personal income in Lincoln County declined by 0.5 percent and in Pipestone and Fillmore counties grew at less than 1 percent from 1991 to 1992.

Farm income growth also pushed growth rates for the decade. From 1982 to 1992, personal income increased 77.6 percent in Minnesota. In Traverse County, personal income increased more than twice that rate (158.9 percent). Nine counties in western Minnesota saw personal income double over the decade. Counties with very slow personal income growth were scattered throughout the state, including some agricultural counties in southern Minnesota. Chisago County had the slowest growth (55.6 percent), and Cottonwood and Waseca counties saw per capita income grow less than 60 percent.

Earnings Grow Faster in Rural Counties

Hennepin County had the highest per capita earnings (\$19,418) in 1992, followed by Dakota and Carver counties. Lowest per capita earnings were found in Aitkin, Clearwater and Mahanomen counties.

Strong farm income in 1992 meant strong growth in earned income. Earnings showed strongest growth in rural counties, particularly in the northwestern part of the state. For the state, per capita earned income increased 7.5 percent from 1991 to 1992. But in Kittson County, per capita earnings grew more than eight times as fast (62.1 percent). In all, 11 counties saw per capita earnings increase more than 18 percent. Of these counties, only Watonwan is not in northwestern Minnesota.

From 1982 to 1992, per capita earnings more than tripled in Traverse County, increasing from \$3,445

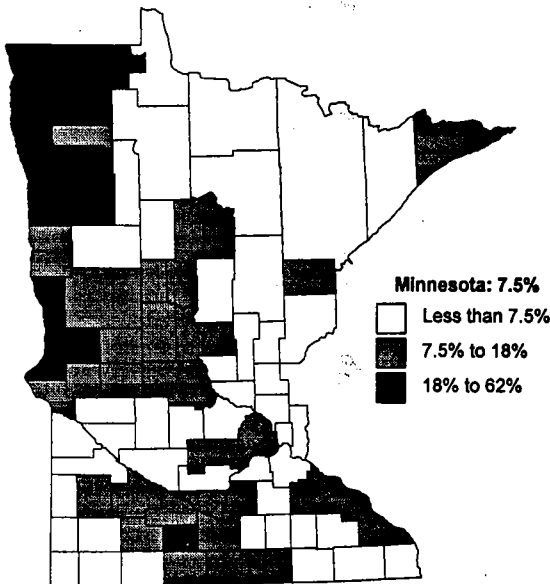
to \$10,893. Earned income in all of Minnesota rose 83.6 percent during this period, and in 48 counties, earnings growth exceeded the state average. The smallest increases in earned income occurred in Chisago, Waseca and Anoka counties.

Average annual rates of growth for the various kinds of earned income vary markedly, both over time and as compared with other types of earnings. Per capita earned income averaged annual growth over the past 10 years of 2.6 percent, after adjusting for inflation. Farm income over the same period had virtually the same average growth rate. Nonfarm proprietors' income had the fastest average annual rate of growth for this 10-year period at 4.0 percent. Average annual growth in wages and salaries was 2.4 percent, slightly less than total earned income.

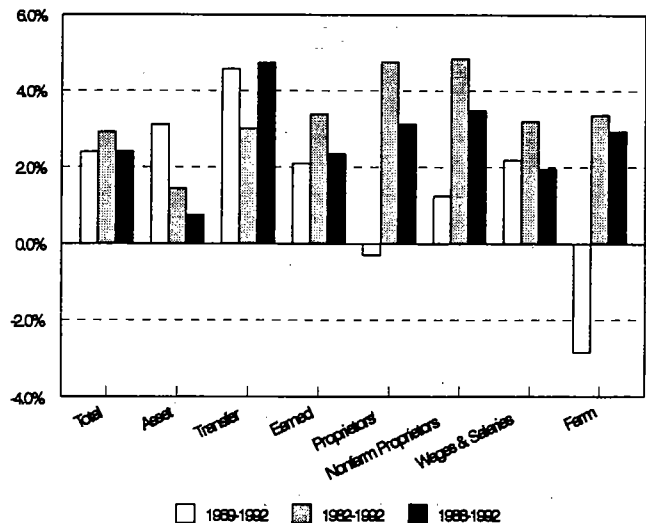
Since 1988, annual growth in per capita wages and salaries has averaged significantly less than all earned income growth, after adjusting for inflation. From 1988 to 1992, wages and salaries increased annually just under 1.0 percent, while total earned income increased 1.4 percent. Strong annual growth rates in both proprietors' and farm income drove all earned income growth during this five-year period.

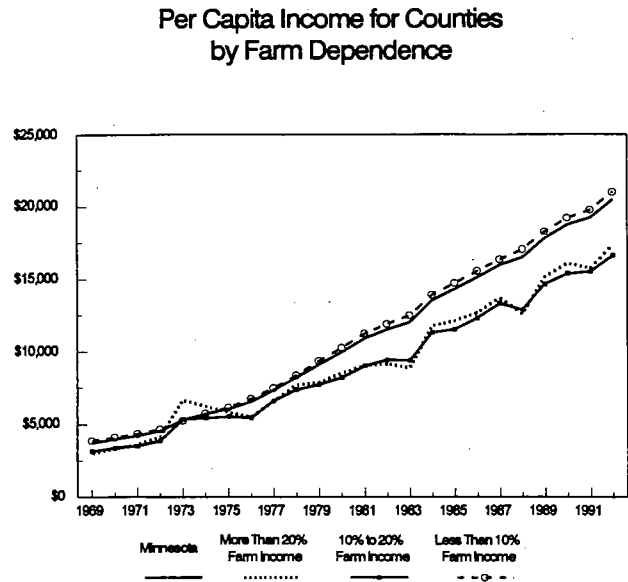
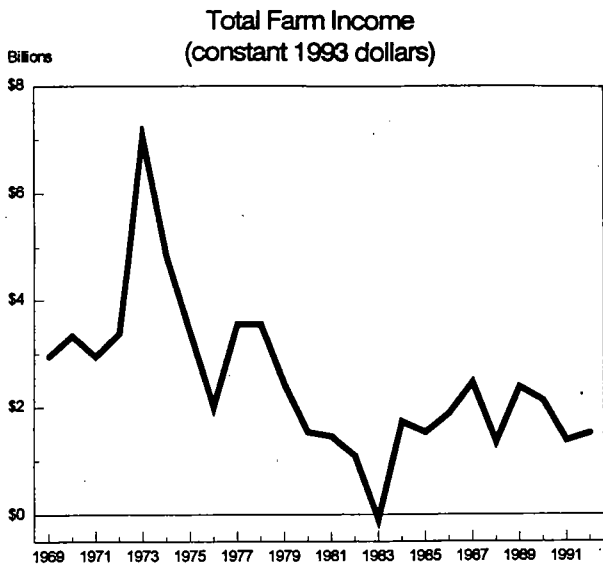
Since 1969, per capita earned income growth has shifted from strong gains for wages and salaries to greater increases in proprietors' and farm income. Wages and salaries experienced especially strong growth in the mid-1980s, but since 1988, proprietors' income and farm income have gone up more rapidly than wages and salaries. Farm income, as noted earlier, can fluctuate widely; and its extremely poor showing in 1993 may drastically decrease proprietors' income.

Change in Per Capita Earnings
1991 to 1992



Average Annual Rates of Change for Income
(per capita values adjusted for inflation)





Income Fluctuates Widely in Farm-Dependent Counties

Farmers in Minnesota saw income from their operations increase dramatically in 1992. From 1991 to 1992, per capita farm income increased 12.6 percent, or nearly twice as fast as total personal income. In 1983, total farm personal income in Minnesota was -\$66 million. This year was the only time since 1969 that total farm income was negative. Total farm income peaked in 1973.

Since 1969, 13 Minnesota counties have derived, on average, more than 20 percent of personal income from farm income. In another 26 counties, farm income made up from 10 to 20 percent of personal income. In those counties where farm income is less than 10 percent of total personal income, per capita income has been greater than the Minnesota average every year except 1973 and 1974. Total farm income, after adjusting for inflation, peaked in 1973, with 1974 being the second highest year. As a result of exceptionally high farm income, per capita income for farm-dependent counties was nearly 25 percent higher than the Minnesota average in 1973. In 1974, the difference was about 9 percent, but by 1975, per capita income in farm-dependent counties had fallen below the state level. Per capita income in counties deriving more than 20 percent of total income from farm income is generally higher than in those counties that derive 10 to 20 percent of income from farm income.

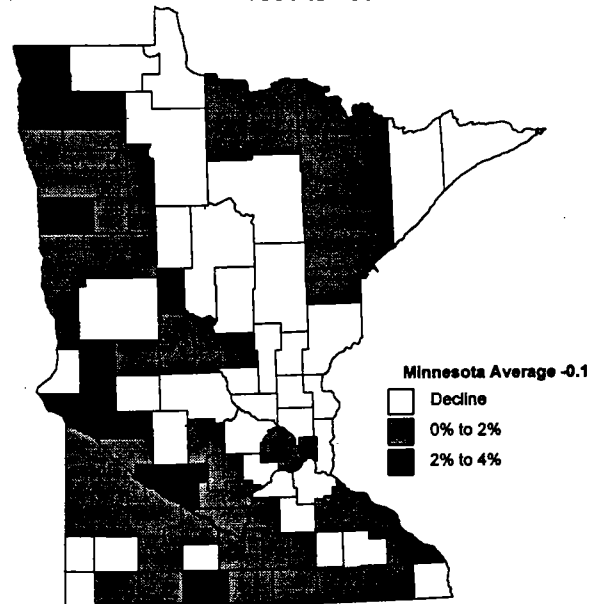
Asset Income Remains Stagnant

From 1991 to 1992, per capita asset income showed a slight loss (down 0.1 percent or \$3) in Minnesota. Thirty-six counties, located primarily in a band running from Roseau and Lake of the Woods counties in the northwest to Olmsted and Houston in the southeast, saw declines in asset income. This same

band is usually associated with strong income and population growth. Asset income growth also lagged behind per capita income growth from 1982 to 1992. Asset income growth in Minnesota was 53.5 percent, well behind total per capita income growth of 77.6 percent. Only four counties — Cook, Washington, Lake and Winona — saw growth in per capita asset income exceed increases in total per capita income over the decade.

In part, the slowing of asset income growth is due to lower interest and inflation rates. In the early 1980s, interest rates declined as the federal government aggressively pursued a policy of reducing inflation. From 1976 to 1982, asset income in Minnesota grew at an annual rate of 6.8 percent, after adjusting for inflation. But from 1982 to 1992,

Change in Per Capita Asset Income
1991 to 1992



the average annual growth was only 0.7 percent. And in both 1991 and 1992, inflation adjusted total asset income in Minnesota declined. Persons holding stocks, bonds and rental property saw income from these sources stagnate. In those rural counties where rent from farm property is a larger part of asset income, strong farm income lessened this effect.

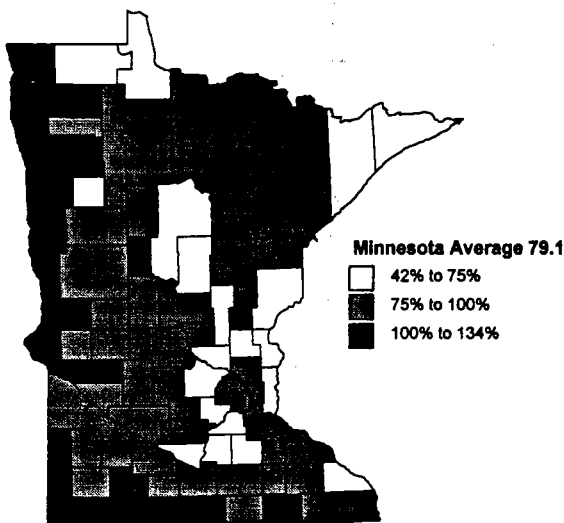
Per capita asset income is highest in Traverse County (\$6,080), nearly twice as much as for the state (\$3,197). Per capita asset income exceeded \$4,000 in seven counties - Brown, Faribault, Grant, Hennepin, Redwood, Rock and Traverse. Of these, only Hennepin is not a rural, agricultural county. All of these counties, except Traverse and Rock, saw very small asset income increases in 1992. In Traverse County, per capita asset income declined 2.8 percent or \$176, and in Rock County, it fell 2.0 percent or \$82.

Transfer Income Shows Steady Growth

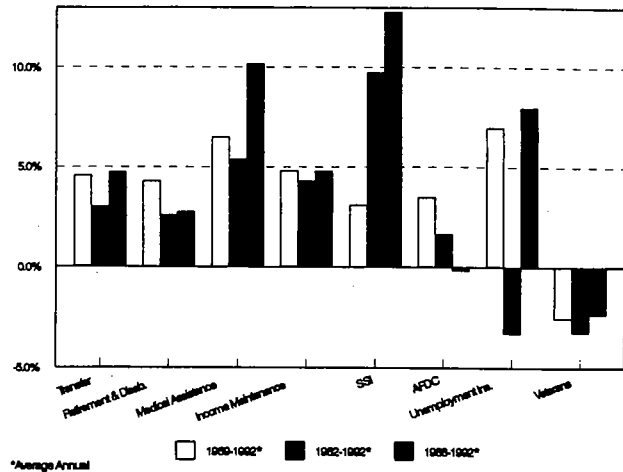
In 1992 in Minnesota, transfer payments averaged \$2,975 per capita. Transfer payments increased 8.3 percent from 1991 to 1992, exceeding growth in total personal income. Similarly, from 1982 to 1992, transfer income grew at a pace slightly ahead of per capita income (79.1 percent). Much of the growth in transfer payments is a result of an aging population, particularly in western counties. With more persons retired and receiving retirement and medical benefits, transfer payments increased at rates higher than other types of income.

Retirement and disability benefits in Minnesota have historically accounted for about 50 percent of all transfer payments. In 1991, these benefits dipped below 50 percent for the first time since 1975. While these benefits make up the largest portion of all transfer payments, their average annual

Increase in Per Capita Transfer Income
1982 to 1992



Average Annual Rates of Change for Transfer Payments
(per capita values adjusted for inflation)



growth has been modest (1.8 percent from 1982 to 1992, after adjusting for inflation). Medical benefits increased from about 24 percent of all transfer payments in 1982 to more than 30 percent in 1992. Average rates of growth (inflation-adjusted) for medical benefits were 4.6 percent from 1982 to 1992, or more than twice as rapid as for retirement and disability benefits. The fastest growing type of transfer payment is Supplemental Security Income with average annual rates of growth from 1982 to 1992 of 8.9 percent. However, these payments have amounted to less than 2 percent of all transfer payments since the early 1970s.

In 1992, Aitkin County had the highest per capita transfer income (\$4,513). Big Stone County was second with \$4,487. The smallest per capita transfer incomes are found in the Twin Cities metropolitan area. Anoka, Carver, Dakota, Washington, Scott and Sherburne counties all had per capita transfer payments of less than \$2,000. These counties have younger populations and lower poverty rates and, as a result, lower transfer incomes.

Technical Note

Personal income is an estimate of income received by the residents of a state. These income estimates are part of the National Income and Product Accounts prepared by the Bureau of Economic Analysis. Other NIPA include Gross State Product, disposable personal income and nontax payments.

Personal income is presented both as total personal income and as per capita personal income. To obtain the per capita figures, total personal income is divided by the entire population of the area (state or county).

Personal income includes income received by, or on behalf of, all residents of the area and excludes government or corporate income. It includes all income received by

persons from participation in production, from business and government transfers, and from government interest. The persons in "personal income" include individuals and nonprofit institutions that serve individuals, private uninsured welfare funds, and private trust funds. While personal income is based on income received by residents, it does not refer to actual income received by actual individuals.

Personal income consists of three components: earned income, asset income and transfer payments. Earned income includes wages and salaries, proprietors' income, farm income, and other labor income, which is primarily employers' contributions to private benefit plans. Asset income is income received from interest payments, dividend payments and rent. Transfer payments are, for the most part, government payments to individuals, such as Social Security, medical, income maintenance, unemployment insurance and veterans' benefits.

Estimates of personal income are available at the state level through 1993, but personal income for counties is available only through 1992.

A complete discussion of definitions and methodology used to develop estimates of personal income can be

found in *Local Area Personal Income: 1969-92*, (Washington, D.C.: U.S. Department of Commerce, 1994), pp. M-1 through M-37.

Some data in this report has been adjusted for inflation. The Consumer Price Index deflator for the United States was used to convert nominal dollars from the Bureau of Economic Analysis to real dollars.

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