

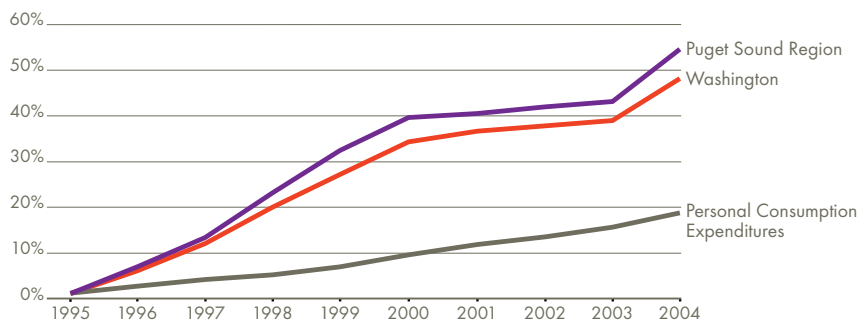
PERSONAL INCOME AND INFLATION, 1995-2004

Since 1995 the region's per capita income growth has outpaced inflation, fueled in large part by the technology sector. Although a slowdown in income gains was seen during the recession beginning in 2001, income growth in the region and state easily outpaced inflation as the economy started to recover in 2004.

From 1995 to 2000, the state and region experienced a steep increase in per capita income, with stock options and software sector industry wages playing a significant role. However, by 2000 when the regional economy started taking a turn for the worse, the rate of income growth slowed significantly, stagnating until 2003. Nationally, the Puget Sound metropolitan area was among the hardest hit by the 2001 recession.

Growth in state and regional per capita income outpaced inflation growth up until 2001, the start of the recession. Inflation in 2001 grew by 2.1 percent, whereas the state's per capita income grew by 1.6 percent and the region by only 0.4 percent. Inflation grew faster than regional growth in per capita income by 0.2 percentage points in 2002 and 1.3 points in 2003, a trend that ended when the economy started to recover in 2004. The largest gap between regional income growth and inflation occurred in 1998, with the region's income growth 7.9 percentage points higher than inflation growth.

Figure 1. Change in State and Regional Per Capita Income and Inflation Since 1995



Note: Inflation is estimated using the implicit price deflator for Personal Consumption Expenditures.

PERSONAL INCOME

Personal income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance. The personal income of an area is the income that is received by, or on behalf of, all the individuals who live in the area; therefore, the estimates of personal income are presented by the place of residence of the income recipients.

Per capita personal income is equal to the sum of all income sources divided by the total number of persons in a geographic area. Per capita income estimates are a useful measure of an average person's economic status. In the long run, both changing demographic composition and changing local economic conditions affect per capita income levels of a region. For example, if workers in two counties have similar earnings, but one county has a higher proportion of children (and therefore a lower proportion of workers), that county will likely also have a lower per capita income.

Puget Sound Regional Council

information center

1011 Western Avenue, Suite 500
Seattle, Washington 98104-1035

206-464-7532 • FAX 206-587-4825 • infoctr@psrc.org

Table 1. State and Regional Per Capita Income, 1995 – 2004

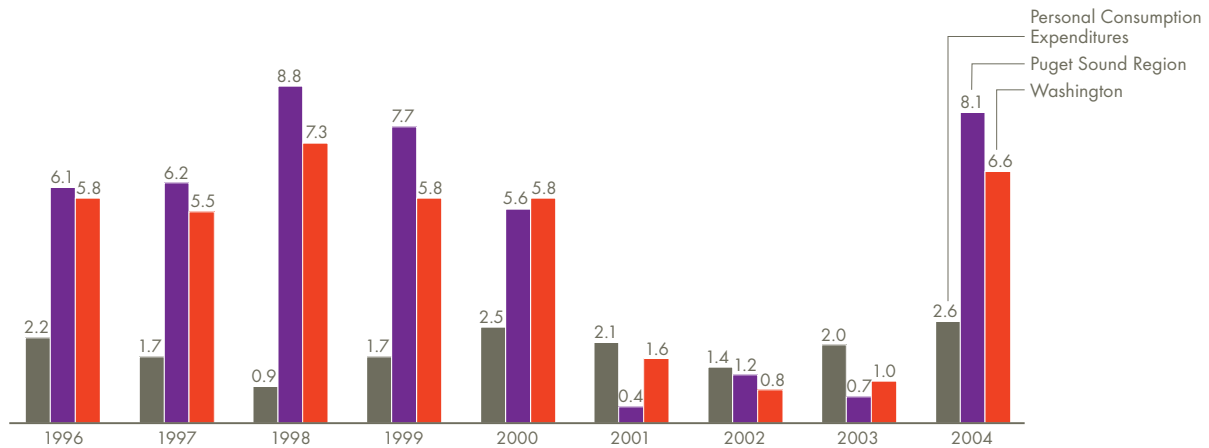
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Washington	\$23,700	\$25,100	\$26,500	\$28,400	\$30,000	\$31,800	\$32,300	\$32,500	\$32,900	\$35,000
Puget Sound Region	\$26,700	\$28,300	\$30,000	\$32,700	\$35,200	\$37,200	\$37,300	\$37,700	\$38,000	\$41,100

Note: Numbers are rounded to the nearest 100 and in current \$ (not adjusted for inflation).

Since 1995, the state’s income has grown by 47.9 percent, an average annual growth rate of 4.4 percent, and the region by 54.2 percent, an annual growth rate of 4.9 percent. Inflation grew by 18.3 percent during that time period, an annual growth rate of 1.9 percent.

The gap between the state and region’s annual per capita income has been consistently widening since 1995. In the Puget Sound region, annual per capita income in 2004 was \$41,100, more than \$6,000 or 17 percent higher than the state’s per capita income. This is double the difference between the state and the region’s income in 1995.

Figure 2. Annual Percent Change in State and Regional Per Capita Income and Inflation, 1996 – 2004



At the county level, King County’s per capita income in 2004 was \$49,300, the highest of the four counties. This was 45 percent higher than the next highest county, Kitsap, which had a per capita income of \$33,900. In 1995, the difference between King County’s income and the second highest per capita income was 33 percent.

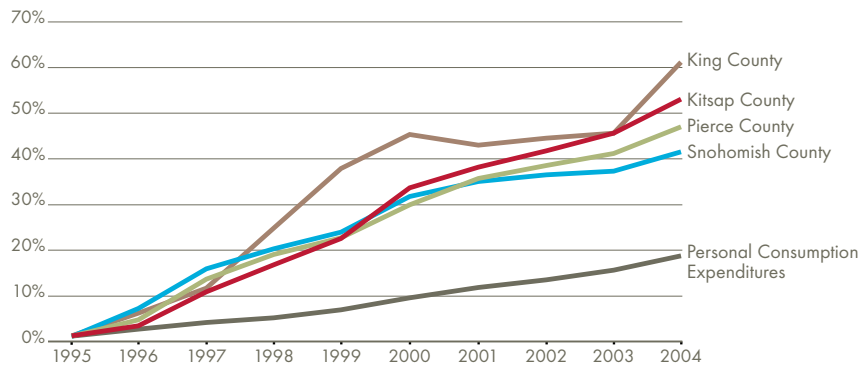
Table 2. County Per Capita Income, 1995 – 2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
King	\$30,600	\$32,600	\$34,300	\$38,200	\$42,200	\$44,400	\$43,800	\$44,300	\$44,500	\$49,300
Kitsap	\$22,200	\$22,900	\$24,600	\$25,800	\$27,200	\$29,500	\$30,500	\$31,300	\$32,200	\$33,900
Pierce	\$21,200	\$22,300	\$24,100	\$25,300	\$26,100	\$27,600	\$28,800	\$29,400	\$29,900	\$31,200
Snohomish	\$23,000	\$24,600	\$26,700	\$27,700	\$28,600	\$30,400	\$31,200	\$31,500	\$31,700	\$32,600

Note: Numbers are rounded to the nearest 100 and in current \$ (not adjusted for inflation).

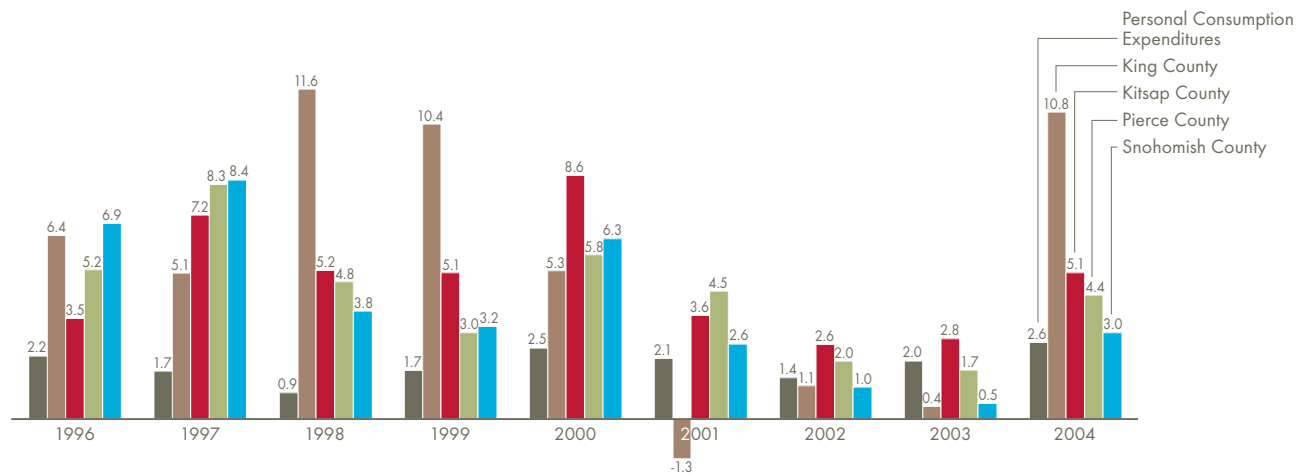
In all four of the Puget Sound counties, per capita income growth has exceeded inflation growth since 1995. As mentioned previously, since 1995, inflation grew by 18.3 percent, an average annual growth rate of 1.9 percent. In comparison, King County personal income grew by almost 61 percent, an average annual growth rate of 5.4 percent. Kitsap had the second highest increase with almost 53 percent growth in income, a 4.8 percent annual growth rate. Pierce and Snohomish followed with total growth rates of 47.3 and 41.6, respectively, with annual growth rates of 4.4 and 3.9 percent. Of the four counties, King was the only one to experience the sharp increase between 2003 and 2004. The Microsoft dividends paid out that year were allocated to the county that they resided in, so King County received the bulk of the pay out.

Figure 3. Change in County Per Capita Income and Inflation since 1995



Until 2000, all counties in the Puget Sound region experienced year-to-year growth in per capita income that exceeded the rate of inflation. In 2001, however, King County fell behind. Inflation in 2001 grew by 2.1 percent, whereas King County per capita income actually experienced a decrease of 1.3 percent. In 2002, both King and Snohomish had an increase in per capita income that did not keep up with inflation by 0.3 and 0.4 percentage points. By 2003, Pierce, as well as King and Snohomish, grew below the rate of inflation. The only county whose per capita income consistently grew at a rate higher than inflation was Kitsap, which was the least affected by the 2001 recession.

Figure 4: Annual Percent Change in County Per Capita Income and Inflation, 1996 – 2004



Overall, the state and the region have outperformed the rise in inflation since 1995. Some losses did occur during the recession; however, by 2004 income growth had resumed.

For more information about this *Trend* and per capita income and inflation, contact Kristen Koch at 206-587-5667 or kkoch@psrc.org. Detailed income estimates and personal consumption expenditures are available at www.bea.gov.

COST OF LIVING COMPARISONS

The change in the cost of living is estimated through a price index, which is an estimate of the relative cost of purchasing the same goods and services at different times. Income estimates are compared to price indexes to determine whether the change in income has kept up with the change in inflation. Comparing the change in income to the change in prices yields the change in purchasing power, or the change in real income.

The federal government publishes two price indexes for the personal consumption of goods and services. One is the Consumer Price Index (CPI), published by the U.S. Bureau of Labor Statistics. The other is the implicit price deflator for Personal Consumption Expenditures (PCE), one of several indexes for the gross domestic product, published by the Bureau of Economic Analysis (BEA).

For the purposes of this trend, the PCE deflator is used as the measure of inflation. The PCE deflator for previous years is revised annually to incorporate source data that are more complete and more appropriate than previously incorporated. For historical analysis, the CPI is inadequate because, once published, it is considered final. The CPI is more practical for certain current usages such as salary adjustments for the costs of living.