

New Hampshire ECONOMIC CONDITIONS

Near Grantham NH on I-89 - Keith Garland on flickr

October 2019

Littleton Pumpkin Festival - Ben on flickr

Income Gains and Inequality Among New Hampshire Households

A decade after the end of the “great recession” and in an era of rising employment and low unemployment, there remain concerns and even a pessimism over what is seen by some as widespread inequality of opportunity, income, and wage growth, in the country. Not every resident, and not every region in New Hampshire has benefited equally in recent years from the state’s strong economy and labor market. Still, examining wage, income, and demographic data in the state indicates that it is inaccurate to suggest that a majority of New Hampshire residents are not better off economically than they were a decade ago. This article examines household income trends in

New Hampshire to assess whether the rhetoric surrounding the issue of income inequality risks overlooking what the data actually is telling us about income inequality in the state.

New Hampshire Has a Broad Middle Class

Because New Hampshire lacks a personal income tax it is sometimes assumed that the state is a “haven for the rich.” Comparing the distribution of individuals in the state by household income and benefits with other states, and with the nation as a whole, New Hampshire has a somewhat higher percentage of individuals in high-income households and a much smaller percentage in low-

income households – in other words, a very broad middle class. This alone would suggest that New Hampshire has a more equitable income distribution than do most other states.

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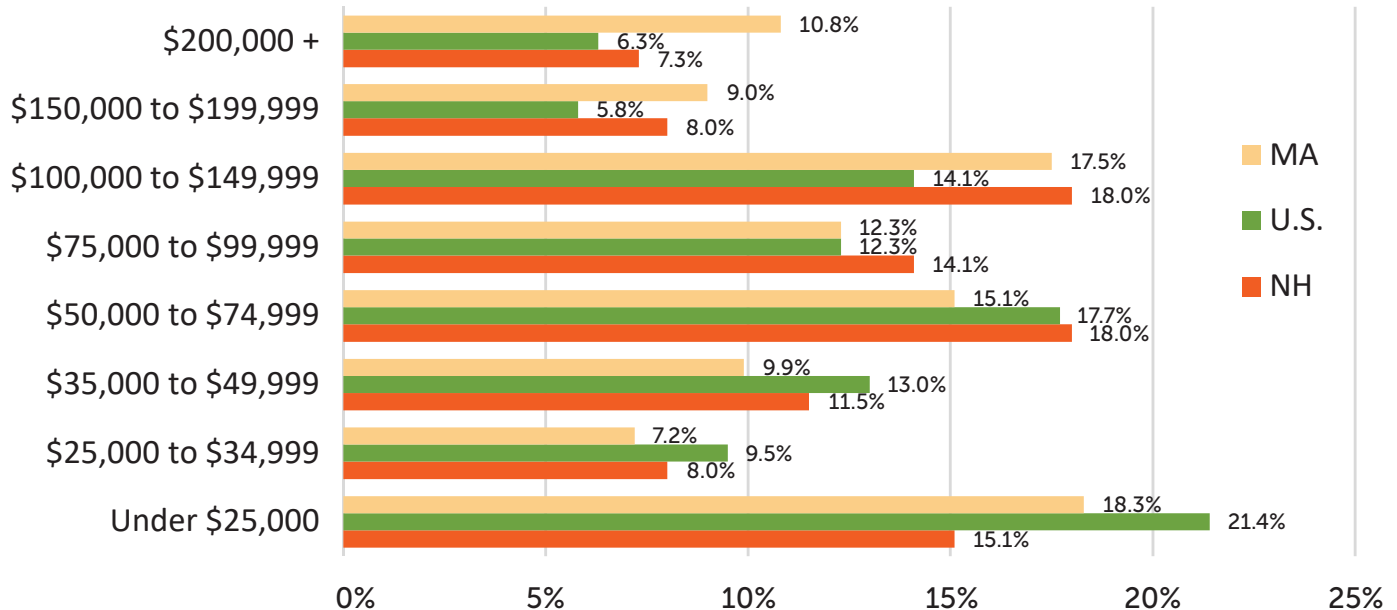
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New Hampshire Has a Somewhat Higher Percentage of Individuals in High Income Households and a Much Smaller Percentage in Low Income Households (a Broad Middle Class)



Source: American Community Survey 5 year estimates 2013-2017

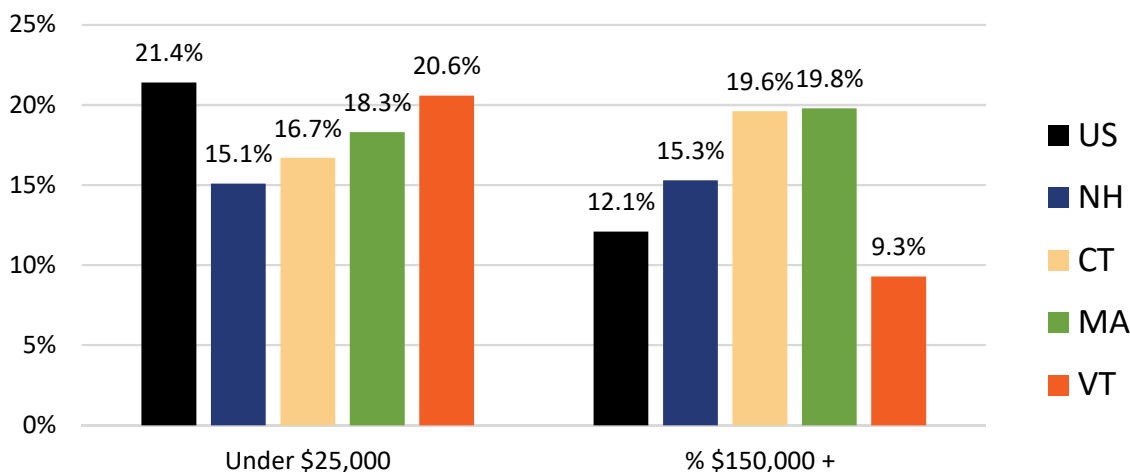
Comparing New Hampshire to other New England states, New Hampshire has a significantly lower percentage of individuals living in higher income households (earning \$150,000 per year or more) than either Massachusetts or Connecticut, and a lower percentage of individuals in households earning less than \$25,000 per year than any other New England state.

Measuring Inequality

A recent issue brief by the U.S. Census Bureau, using one-year (2018) data for the American Community Survey (ACS), reported that New Hampshire was among a number of states that saw a statistically significant increase in inequality of income between 2017 and 2018.ⁱ That report received considerable attention in the media, but estimates using one-year of American Community Survey data have a relatively large margin of error. In New Hampshire and other states, the margin of error in the one-year estimates is approximately equal to, or higher than,

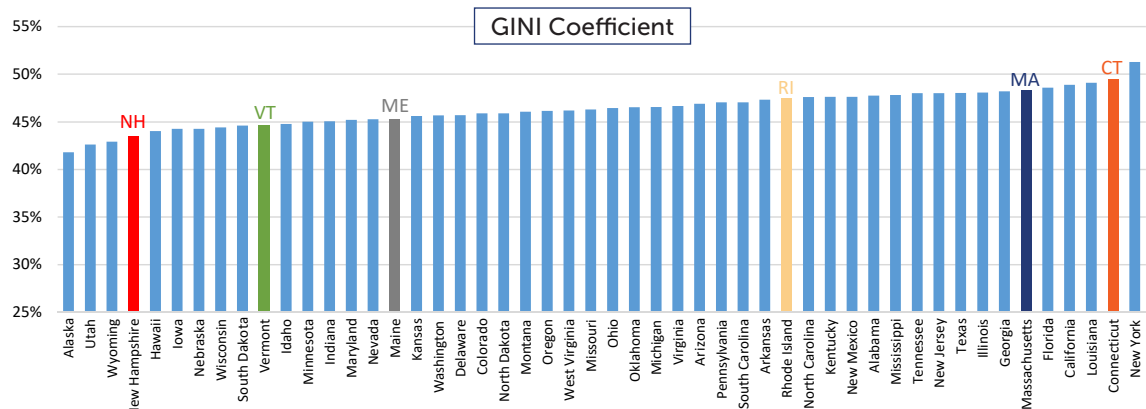
the reported change in the inequality estimate between 2017 and 2018. In other words, the range of possible change in the report's inequality estimate for New Hampshire could be as low as no change, or as high as twice the reported estimate. Historically, New Hampshire has among the lowest levels of income inequality of any state in the nation, whether using one-year ACS estimates that have a larger margin of error, or five-year estimates with a margin of error that is less than one-half of the one-year estimates. This suggests that the recently reported increase in the state's income inequality may be an anomaly. New Hampshire has the nation's 7th highest median household income but among the lowest levels of income inequality of any state. The Gini index measures the inequality among values of a frequency distribution. The Gini index is technically sound, and has been used extensively for decades by U.S. and international

New Hampshire Has Few Higher and Lower-Income Households Than Other New England States



Source: American Community Survey 5 year estimates 2013-2017

New Hampshire Has Among the Most Even Income Distributions of Any State in the Nation



Source: American Community Survey 5 year estimates 2013-2017

organizations and government agencies such as the U.S. Census Bureau, the World Bank, the Central Intelligence Agency, and the United Nations, to measure income inequality in region. A Gini coefficient of zero expresses perfect equality, where all values are the same in the case of household income - everyone has the same income. A Gini coefficient of 1.0 expresses maximal inequality, where only one person has all the income and all others have none.

As the accompanying chart shows, according to the 2013-2017 five-year ACS estimates (which reduces the margin of error of one-year estimates by more than 50 percent), New Hampshire has a more equal distribution of income than all but four other states, and the lowest Gini coefficient of any New England state.

ⁱ U.S. Census Bureau, American Community Survey Briefs, "Household Income 2018," September, 2019.

Demographics Explains Much of the Growth in Median Household Income

Discussion of income inequality typically focuses on growth in household income, or median household income over time. Little attention is paid to the demographic characteristics of households, how they have changed over time, and the impact that changes in household demographics have on income growth.

The type of households, their age distribution, the number of family members or unrelated individuals in a household, as well as the number of wage earners in a household, all influence median household income and household income growth trends, and each change over time. An examination of household income data in New Hampshire indicates that changes in the distribution of households by type, as well as the age distribution of households in the state have played a significant role in median household income growth trends in New Hampshire in recent years.

Fewer Family Households in New Hampshire

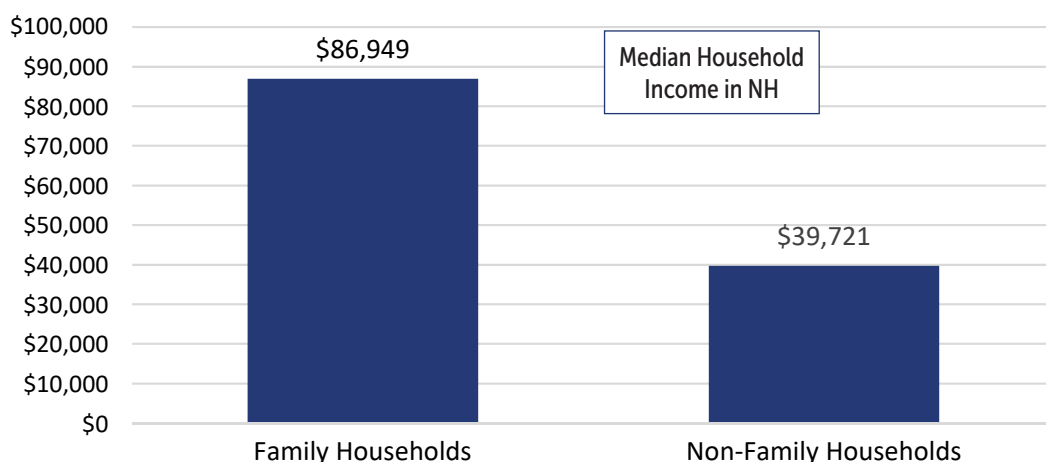
Household income varies greatly by the structure of households (married couple family, non-family or unrelated individuals living together, male or female headed family households with no spouse present, etc.). A simple breakdown into two, broad categories shows the difference in median household income in New Hampshire for family and non-family households. Family households in New Hampshire, have a median income that is more than twice as high as non-family households (\$86,949 to \$39,721). Non-family households comprise only about one-third of all households in New Hampshire, but since the “great recession,” the

percentage of New Hampshire households that are non-family households has increased by over two percent (2%), while family households have had an equivalent, opposite decline. An increase in the percentage of all New Hampshire households that have lower income levels will slow growth in median household income over time.

Older and Younger Households Account for all Growth in Households

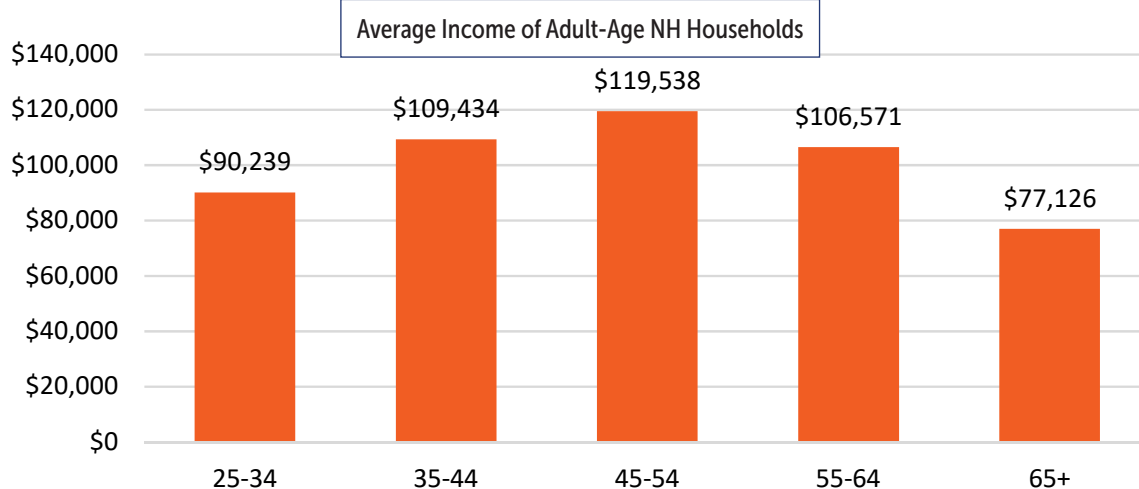
Household income peaks in the 45-54 age group, with the 35-44 age group having the next highest median income. These are age groups where both earnings per worker and time spent working peak for most workers. Median household income for different age groups is not available from the American Community Survey so this analysis uses average household income.

Non-Family Households Have Fewer Workers per Household and a Lower Median Income. They Have Increased as a Percentage of all New Hampshire Households

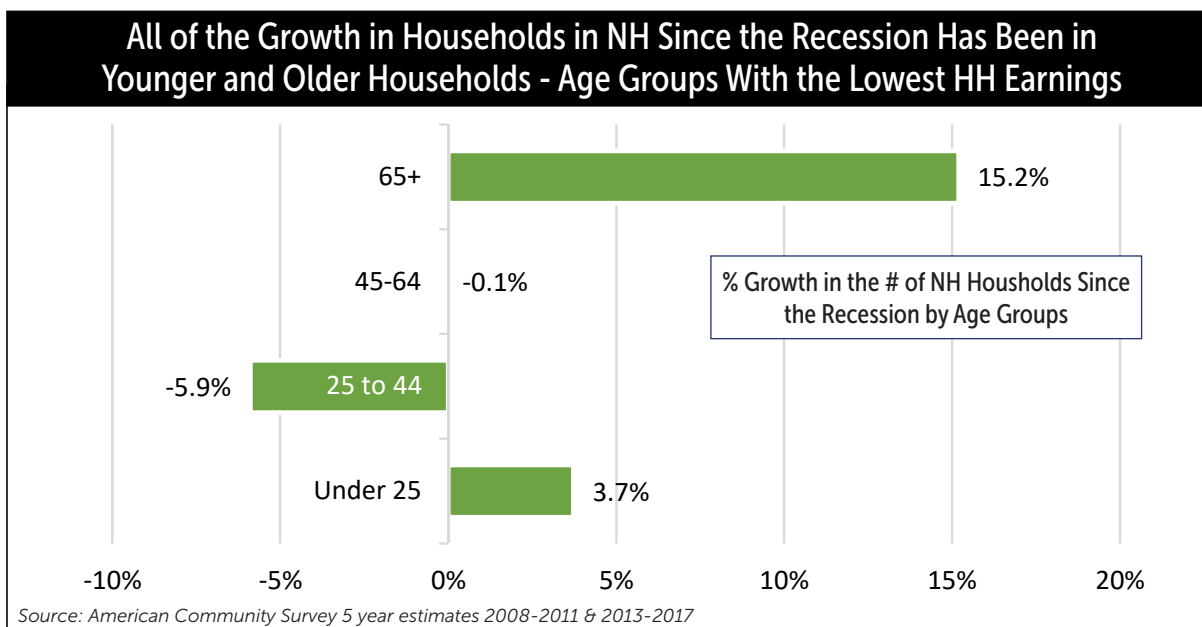


Source: American Community Survey 5 year estimates 2013-2017

Household Income Peaks Between 45 and 54 Years of Age



Source: American Community Survey 5 year estimates 2013-2017



As the distribution of households in NH changes, and a higher or lower percentage of households are in the highest and lowest household income age ranges, growth in median household income can accelerated or decelerate. As the accompanying chart shows, all of the growth in New Hampshire households since the “great recession” has been in households with lower income levels relative to other age groups, contributing to a slowing of growth in median income in the state.

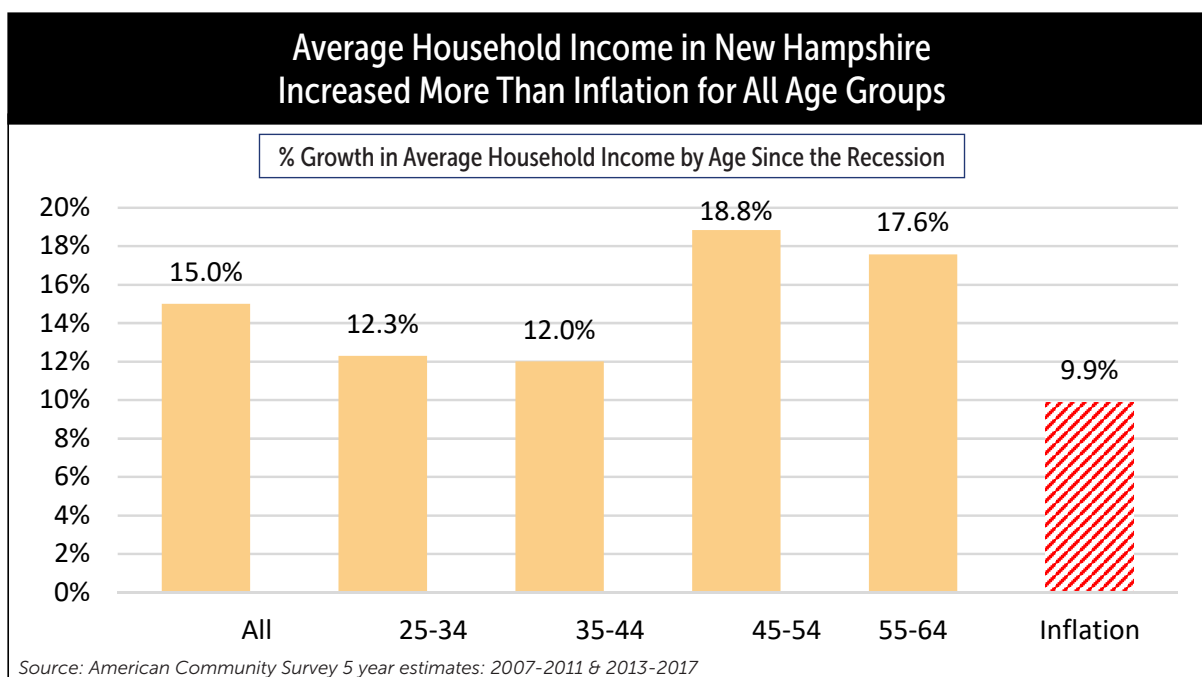
Aggregate Income Growth is Not Individual Income Growth

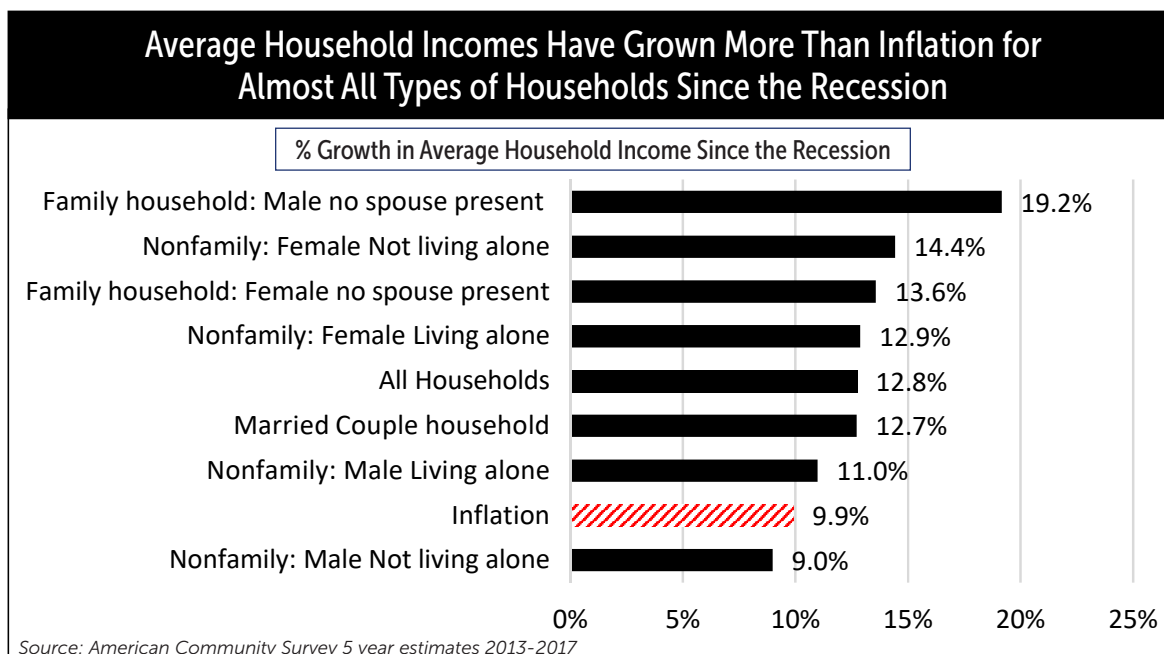
These data highlight the impact that demographic changes can have on aggregated measures of income growth in the state, but they say little about income growth of individual households

or even households in similar demographic groups. Average household income among all age groups has increased faster than inflation in New Hampshire since the “great recession”.

Similarly, growth in average household income for almost all household types in New Hampshire has exceeded inflation, indicating that, on average, households of all types experienced real income gains since the recession (albeit not all at the same rate). The one exception is male-headed, nonfamily households, with more than one person living in the household.

Data that show real income gains for different demographic groups are important because if increasing inequality and slow or stagnant income gains were the result of a fundamental inequality in income growth for some groups, we would expect





to see more demographic groups with stagnant or declining incomes. Instead, we see that some demographic groups have seen greater gains than others, but in general, almost all demographic groups have seen real income gains. These data imply that the causes of slower median household income growth largely reflect changes in the demographic composition of New Hampshire households. Demographic changes have resulted in an increasing percentage of New Hampshire households being comprised of households that tend to have lower levels of income (younger and retired households and non-family households). As household growth in the state has been more concentrated among groups with lower levels of household income, the effect has been to lower the growth in median household income and also impact inequality measures such as the Gini index.

There are other factors that contribute to differences in economic opportunities, earnings, and household incomes in New Hampshire. Educational attainment and skill level are the most prominent, but these factors reflect an economy that increasingly values and monetarily rewards the occupational skills and educational attainment levels that are most in demand by employers, rather than a fundamental unfairness or inequality in the state.

Assuring that benefits from a vibrant economy accrue to all New Hampshire residents depends on an understanding of the factors that most contribute to gains in income and opportunity in the state, and what factors are artifacts of demographic shifts occurring in the state.

– Brian Gottlob, Director