

# INDICATOR INSIGHT

ECONOMICS ◀•▶ AN EXPERT'S INSIGHT ON THE ISSUE IN ARIZONA

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## PROPERTY INCOME

Income from dividends, interest and rent, known collectively as property income, totaled \$35.9 billion in Arizona in 2011. Property income, one of three major categories of personal income, accounted for 15.8 percent of Arizona's personal income in 2011. Earnings, which largely consists of wages, salaries, and proprietors' income, is the largest category, accounting for 63.3 percent of Arizona's personal income in 2011. The third category of personal current transfer receipts – which includes retirement and medical benefits (such as Medicare), unemployment insurance compensation, and income maintenance benefits (such as food stamps) – accounted for 20.9 percent of personal income.

To compare income across geographic areas, income is divided by population. Per capita personal income – a key measure of prosperity – totaled \$35,062 in 2011 in Arizona, 15.6 percent less than the national average. By category, Arizona's per capita amount and the difference from the national average in 2011 follows:

- ▶ property income: \$5,538 – 17.6 percent less,
- ▶ earnings: \$22,193 – 19.0 percent less, and
- ▶ transfers: \$7,330 – 1.5 percent less

The amount of property income from stocks, financial instruments, and rental housing in any year largely is dependent on two factors: (1) economic conditions, particularly stock market performance, interest rates, and housing market conditions, and (2) the wealth or net worth of residents. The latter is closely linked to the lifetime earnings. Many residents of Arizona worked elsewhere before moving to the state; in particular, many people migrate to Arizona at retirement age. Thus, the current and historical earnings level in Arizona is only partially related to the amount of property income in the state.

Per capita earnings in Arizona has been lower than the national average for decades. The 2011 differential of 19 percent is the largest on record; the typical differential has been between 10 and 15 percent. Thus, for residents who have spent some or all of their working life in the state, the state's historically low per capita earnings help to explain the state's below-average per capita property income.

## Components of Property Income

Each of the three components of property income – dividends, interest and rent – is directly reported for the nation, but the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) must estimate the figures for states. A variety of methodologies and data are used by the BEA to produce the state estimates, with information from federal individual income tax filings being the most important source. Overall property income is estimated for counties, but estimates of the components are not available for substate areas.

### Interest Income

Of the three components of property income, interest income is the largest at \$17.1 billion (\$2,631 per capita), accounting for 47.5 percent of Arizona's property income in 2011. Interest income consists of two subcomponents, with monetary interest income accounting for 55 percent of the total in Arizona in 2011. The monetary portion is separately estimated for five types: net interest accrued on unredeemed federal government savings bonds; other interest received by individuals, nonprofit organizations, and retirement funds; and interest retained by fiduciaries.



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Arizona Indicators is an online information resource and analysis tool that centralizes data about the state and its communities. Arizona Indicators presents interactive visualizations, clear data descriptions, and public opinion data in a broad range of content areas.

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The balance of interest income consists of imputed interest income. The BEA estimates three types of imputed income: the value of depositor services provided without explicit charge by financial institutions, the interest income received by property and casualty insurance companies on the reserves they maintain to pay claims, and the interest received by life insurance carriers from their reserves.

### Dividend Income

Dividend income is defined as payments in cash or other assets (except company stock) that persons residing in the United States receive from corporations. The BEA separately estimates four types of dividend income: dividends received by individuals, nonprofit organizations, and retirement funds; and dividends retained by fiduciaries. Total dividend income in Arizona in 2011 was \$11.3 billion (\$1,746 per capita), accounting for 31.5 percent of all property income.

### Rental Income

Like interest income, rental income consists of monetary and imputed subcomponents. Monetary rental income, which accounted for only 24 percent of the total in Arizona in 2011, includes net rent and royalties received by individuals, nonprofit organizations, and private noninsured pension plans; and the rental income retained by fiduciaries. The imputed portion consists of the net rental income of owner-occupied dwelling units, based on the assumption that owner-occupants pay and receive rent and incur expenses. Total rental income amounted to \$7.5 billion (\$1,161 per capita) in Arizona in 2011, accounting for 21 percent of all property income.

### Total Property Income by County

Nationally, per capita property income is higher in metropolitan areas (\$6,991 in 2011) than in nonmetro areas (\$5,308). Though the share of Arizona’s residents living in metro areas is greater than the national average, Arizona’s per capita figure in 2011 of \$5,538 was 18 percent below the national average of \$6,719. In Arizona’s metro areas, per capita property income was 20 percent below the national metro average; in Arizona’s nonmetro areas, per capita property income was 24 percent below the national nonmetro average.

Per capita dividend, interest and rental income in 2011 is shown in Figure 1 by county, with the metro counties grouped together for comparison to the national metropolitan average. Of the seven metro counties, only Yavapai County’s per capita property income exceeded the national metro average; the figures for Pinal and Yuma counties were less than half of the U.S. metro average. In the eight nonmetro counties, the figures for Cochise and Gila counties were approximately equal to the U.S. nonmetro average (and higher than the figures in three of the metro counties). However, the figures for Apache and Greenlee counties were less than half of the U.S. nonmetro average.

In Maricopa County, by far the most populous county, per capita property income was 18 percent less than the U.S. metro average and 14 percent less than the overall U.S. average. In contrast, Pima County – the second-most populous – had a per capita property income figure only 4 percent less than the U.S. metro average and nearly equal to the overall national average.

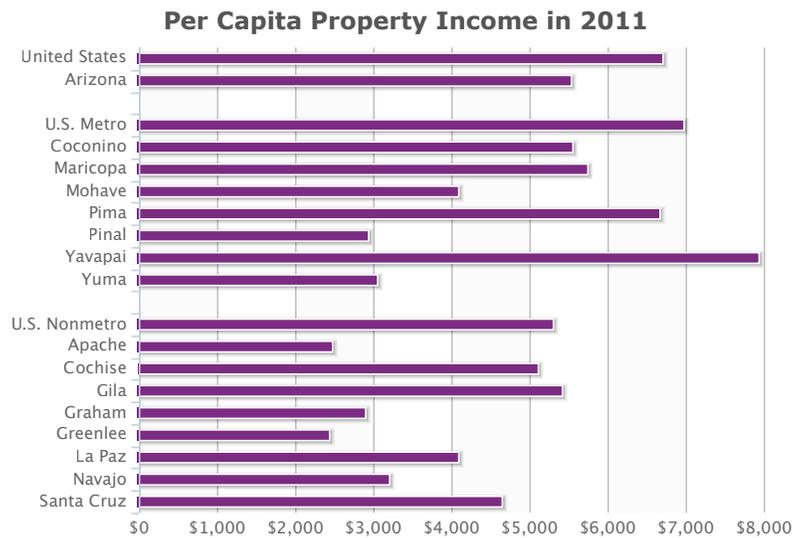


Figure 1 - Per Capita Property Income in 2011. Source: U.S. Department of Commerce, Bureau of Economic Analysis.

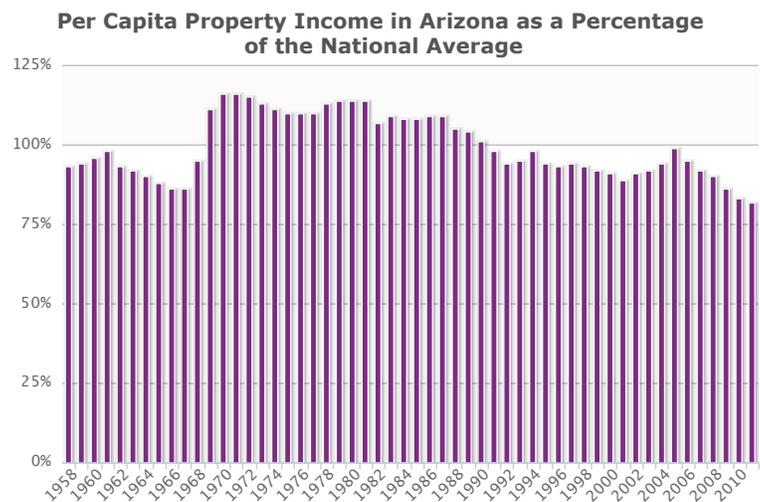


Figure 2 - Per Capita Property Income in Arizona as a Percentage of the National Average. Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## Property Income by Component in Arizona Compared to Other States and the U.S. Average

A time series of Arizona's total per capita property income as a percentage of the national average is shown in Figure 2. Relative to the national average, Arizona's per capita dividends, interest and rent jumped considerably between 1967 and 1970. Arizona's amount was 16 percent above the U.S. average in 1970 and 1971, the largest positive differentials on record. Since then, but particularly since 1987, the percentage of the national average has dropped considerably. Arizona's per capita property income fell below average in 1991 and reached its lowest point in 2010 and 2011 at nearly 18 percent below average.

In 2011, Arizona's per capita property income ranked 36th among the 51 "states" (including the District of Columbia). Among a group of 10 western states (including California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah and Washington), Arizona ranked seventh, with Idaho, New Mexico and Utah having lower amounts. Historically, Arizona's rank among all states has varied from as high as 10th during some years of the 1970s and 1980s to 36th in 2010 and 2011.

On a per capita basis, each of the three components of property income in Arizona was between 12 and 20 percent below the U.S. average in 2011. The subcomponents of interest income also were within this range, as seen in Figure 3. In contrast, per capita imputed rent was only 3 percent, but per capita monetary rent was 31 percent, less than the national average. Among the 51 states, Arizona ranked between 32nd and 37th in each component and subcomponent except imputed rental income, in which it ranked 22nd. Among the 10 western states, Arizona ranked between sixth and ninth in each component and subcomponent.

Arizona's per capita property income and its components/subcomponents relative to the national average are displayed as averages for each of five selected periods in Figure 4. The selection of the periods was based on the annual pattern of overall property income as a percentage of the U.S. average. Using averages eases the comparison of the changes over time relative to examining all 54 data points (1958 through 2011).

As a percentage of the national average, per capita property income in Arizona was highest during the 1969-87 period at 10 percent above average. By 1996-2008, Arizona's per capita property income had dropped to nearly 8 percent below average, a differential comparable to the 1958-68 period. Arizona averaged 16 percent below average from 2009 through 2011.

The temporal patterns for per capita dividends, monetary interest, and imputed interest are very similar to the pattern for overall per capita property income. In contrast, imputed rent has not experienced as much decline, while monetary rent has plunged since the 1958-68 period, relative to the U.S. average.

The lines in Figure 4 would look similar if Arizona's rank among the 51 states were plotted instead of the percentage of the national average. For example, total per capita property income in Arizona ranked 28th from 1958-68, 12th from 1969-87, 24th from 1988-95, 30th from 1996-2008, and 35th from 2009-11. None of the other western states display a similar pattern. Most of the western states have been quite consistent in their rank over the time series.

**Per Capita Property Income by Type in 2011 in Arizona as a Percentage of the National Average**

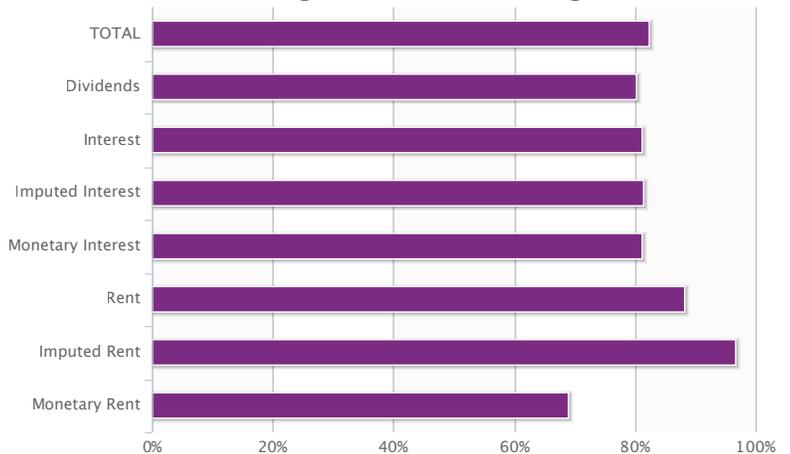


Figure 3 - Per Capita Property Income by Type in 2011 in Arizona as a Percentage of the National Average. Source: U.S. Department of Commerce, Bureau of Economic Analysis

**Per Capita Property Income by Type in Arizona as a Percentage of the National Average, Average for Selected Periods**

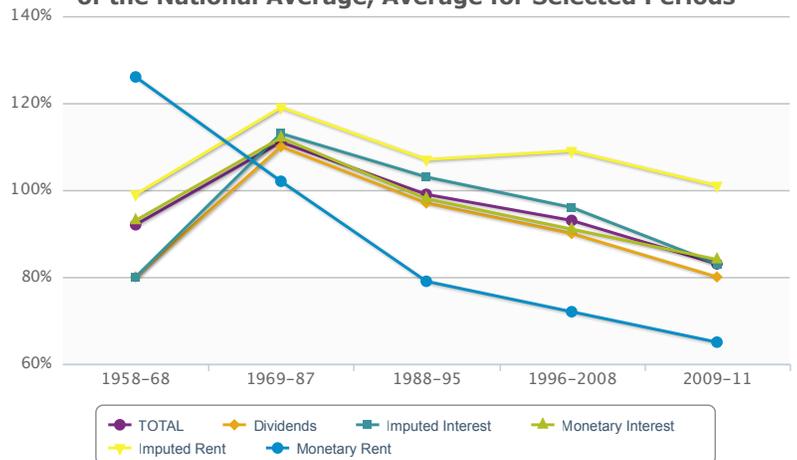


Figure 4 - Per Capita Property Income by Type in Arizona as a Percentage of the National Average, Average for Selected Periods. Source: U.S. Department of Commerce, Bureau of Economic Analysis.