

## Incomes Up, Inequality Down

With all the news about political conventions, vice presidential selections, and hurricanes, it was easy to miss some interesting figures released last week by the Census Bureau. Contrary to the often-repeated doom and gloom portrayal of the US economy – where workers are always working “harder and harder for less and less” – the report showed incomes have been rising, poverty remains low, and inequality shrunk dramatically in 2007.

“Real” (inflation-adjusted) median family income – the income of the family right in the middle of the income distribution – hit \$61,355 in 2007, an all-time high. This was an increase of 2.1% versus 2006 and the third consecutive annual increase.

The last all-time high was set in 2000. As a result, family incomes in this cycle have followed the same, down, and then up, pattern seen during every recession and recovery in the past 30 years. It took until 1986 to beat the record high set in 1979, and it took until 1996 to beat the record high set in 1989. In other words, the fact that it took seven years to reach a new high is normal.

Family income, according to the Census Bureau’s definition, does not include fringe benefits, nor does it include the value of Medicare or Medicaid benefits. Despite these exclusions, the inflation-adjusted median earnings of full-time workers soared in 2007, rising 3.8% for men and 5% for women.

The most shocking part of the report, at least for those who have bought into conventional wisdom, is that in 2007 inequality among families declined at the fastest pace in 45 years. The share of income earned by the top 5% of families declined to 20.1% in 2007 – the lowest level since 1995 – from 21.5% the year before. The share of the bottom 20% of families increased to 4.1% from 4.0%.

So unlike in 1986 and 1996, when median family incomes were finally breaking record highs but income inequality was growing, now we have a new record high for the typical family while inequality is shrinking. Bet you didn’t hear that on the evening news.

Meanwhile, the poverty rate (the percentage of people in poverty) was 12.5% in 2007, slightly higher than the 12.3% in 2006. Census says this change is within the range of normal variation from year to year, and so not statistically significant. To put the 12.5% rate in perspective, it is lower than every year from 1980 through 1998 and lower than the roughly 13% average that has prevailed since the late 1960s.

To us, these figures bolster the case that the underlying fundamentals of the US economy were sound in 2007, before the Federal Reserve decided to try to inflate our way out of financial market turmoil.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-2 / 9:00 am	ISM Index - Aug	50.0	<b>49.9</b>	49.9	50.0
9:00 am	Construction Spending - Jul	-0.3%	<b>-0.5%</b>		-0.4%
9-3 / 9:00 am	Factory Orders - Jul	0.9%	<b>0.5%</b>		+1.7%
<i>sometime</i>	Domestic Auto Sales - Aug	4.8 Mil	<b>4.8 Mil</b>		4.4 Mil
<i>during the day</i>	Domestic Truck Sales - Aug	4.7 Mil	<b>4.9 Mil</b>		4.6 Mil
9-4 / 7:30 am	Q2 Non-Farm Productivity	+3.8%	<b>+3.9%</b>		+2.2%
7:30 am	Q2 Unit Labor Costs	0.0%	<b>-0.5%</b>		+1.3%
7:30 am	Initial Claims - Aug 30	425K	<b>417K</b>		425K
9:00 am	ISM Non-Man. - Aug	50.0	<b>48.5</b>		49.5
9-5 / 7:30 am	Non-Farm Payrolls - Aug	-73K	<b>-75K</b>		-51K
7:30 am	Unemployment Rate - Aug	5.7%	<b>5.8%</b>		5.8%
7:30 am	Average Hourly Earnings - Aug	+0.3%	<b>+0.3%</b>		+0.3%
7:30 am	Average Weekly Hours - Aug	33.6	<b>33.7</b>		33.6
7:30 am	Manufacturing Payrolls - Aug	-35K	<b>-35K</b>		-35K