

April 2021

Personal Income Growth in New York City Has Been Sustained by a Temporary Boost in Transfer Payments

Many key measures of the health of New York City's economy, including employment, earnings and wages, and real estate sales, contracted in 2020. One indicator that did not contract was personal income—the sum of city residents' income from all sources—although its growth slowed considerably. In this issue brief, we look more closely at the major components of personal income, and highlight the key role played by a sharp rise in transfer payments to citizens from the government in response to the Covid crisis.

In an analysis of personal income sources for city residents in 2020, IBO finds that:

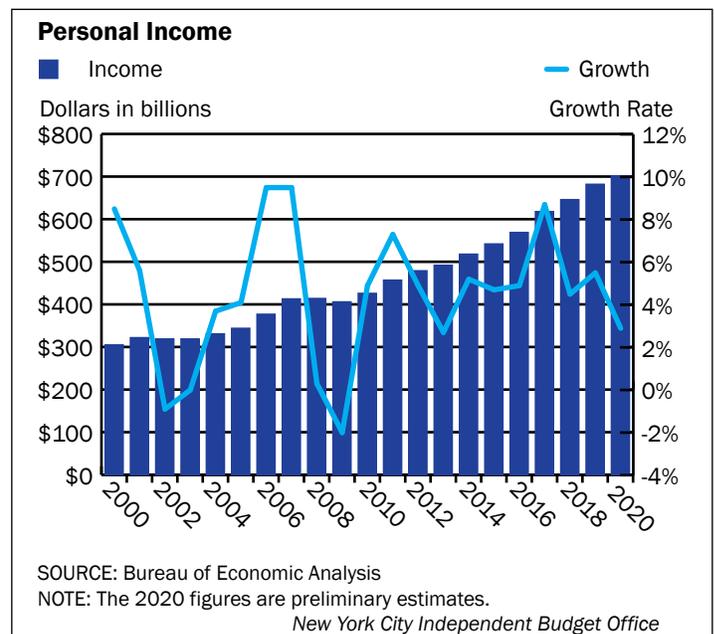
- All private sources of income declined from 2019 to 2020, in response to the Covid-19 crisis;
- Government transfers rose substantially, allowing total personal income to continue growing, albeit at a slower pace than in recent years; and
- We expect personal income growth to continue, driven by a combination of economic recovery and the additional government transfer payments associated with the American Rescue Plan Act of 2021.

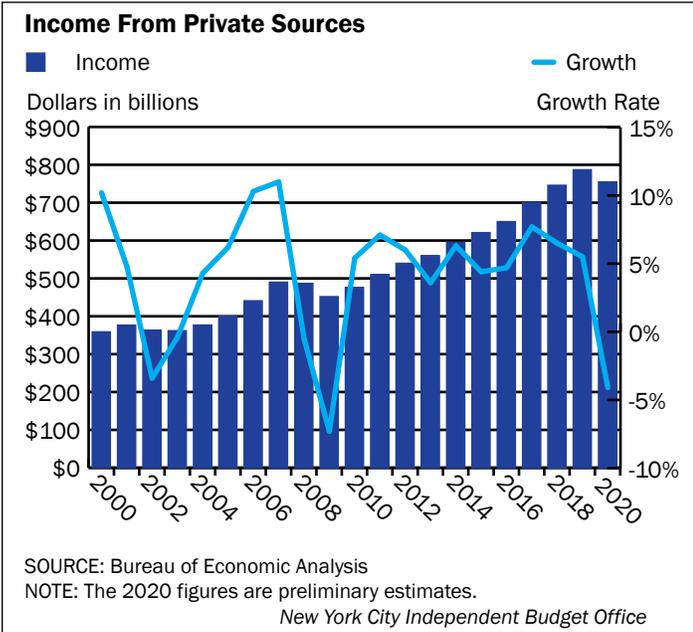
Total Personal Income and Components. Based on the latest available national and state level data from the Bureau of Economic Analysis, IBO estimates that total personal income in New York City grew from \$682.0 billion in 2019 to \$701.8 billion in 2020, an increase of \$19.8 billion.¹ The 2.9 percent growth rate in 2020 is far lower than the 5.5 percent increase in personal income in 2019 and the average annual growth of 5.3 percent over the preceding decade. But it also stands in contrast to the experience of decreases in personal income during the previous two recessions, in 2002 and again in 2009.

Personal income is the sum of several principal sources, with two additional adjustments. This brief uses income

categories as defined by the Bureau of Economic Analysis. Positive components of personal income include private income sources—earnings and wages, other labor income, proprietors' income, and dividends and interest (excluding capital gains)—plus government transfers.² Adjustments include the subtraction of city residents' contributions for social insurance (primarily Social Security and Medicare), and a residence adjustment to capture the net flow of income to other jurisdictions, accounting for commuters and the difference between where money is earned and where the earner resides.³

Income from all of the private components of personal income decreased from 2019 to 2020, by a combined \$32.0 billion, or 4.1 percent, bringing the total to \$755.3 billion. Categories included in this group are earnings and wages, which declined by \$15.4 billion (3.4 percent); other labor income, which declined by \$6.4 billion (7.1 percent); proprietor's income, which declined by \$7.5 billion (8.4





Changes to Personal Income, from 2019 to 2020

Dollars in billions

	Private Income Sources	Transfer Payments	Social Contribution/Residence Adjustment	Total Personal Income
2019	\$787.3	\$106.6	(\$211.9)	\$682.0
2020	755.3	155.9	(209.3)	701.8
Change	-32.0	49.3	2.6	19.8

SOURCE: Bureau of Economic Analysis
NOTE: The 2020 figures are preliminary estimates.
New York City Independent Budget Office

In addition to the large influx of income from government transfers, the two negative adjustments to personal income declined slightly from 2019 to 2020, which boosted total personal income further in the positive direction. Based on preliminary data from the Bureau of Economic Analysis, we estimate that the deduction for payments to social insurance fell from \$59.3 billion to \$58.8 billion (0.8 percent), reflecting reduced employment and withholdings. Meanwhile the residence adjustment fell from \$152.6 billion to \$150.5 billion (1.4 percent).

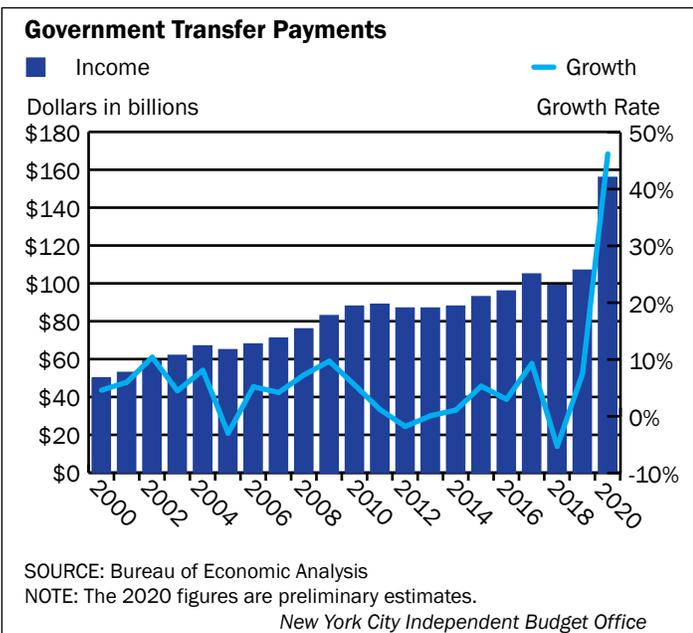
Looking Forward. IBO's most recent [local economic forecast](#), from February 2021, projected that transfer payments would subside to more typical levels and that growth would resume for the other income categories amid a slowly improving economy. Based on that forecast, IBO expected that total personal income would continue to grow slowly in 2021 and 2022, before approaching pre-pandemic levels in 2023 through 2025. Since that report, however, Congress has passed and President Biden has signed the American Rescue Plan Act of 2021, providing \$1.9 trillion of federal spending to combat the negative economic impacts of the pandemic. Provisions funded by the rescue act include individual stimulus checks of up to \$1,400 to eligible U.S. citizens, extended unemployment benefits of up to \$300 per week through the fall, new and enhanced tax credits, and direct support for many businesses and governments. The rescue act will provide a substantial boost to personal income in the city in 2021, and transfer payments will remain higher than normal for the current year.

A potential risk to personal income in the city will be the degree to which workers in city-based jobs who have become accustomed to working remotely from outside of the city will continue to do so even after the pandemic has ended. Many relocations have been temporary, but a permanent change could pull total personal income downward in the future.

Prepared by Cole Rakow

percent); and dividends and interest, which declined by \$2.8 billion (1.8 percent).⁴

The largest positive contributor to personal income growth in 2020 was a sharp rise in government transfers, which includes stimulus payments, expanded entitlement benefits, and unemployment insurance. With the other categories of personal income declining and steep losses in employment following the outset of the pandemic, these benefits dramatically increased last year, growing from \$106.1 billion in 2019 to an estimated \$155.9 billion in 2020, an increase of \$49.3 billion, or 46.2 percent. This increase more than offset the decline of \$32.0 billion in the private income categories, sustaining the growth of total personal income.



Endnotes

¹Figures for 2020 are based on the latest available national and state level data from the Bureau of Economic Analysis, using IBO's local economic model to estimate city-level income.

²Capital gains realizations are not included in the Bureau of Economic Analysis' calculation of personal income. Official data from tax returns on capital gains for 2020 will not be available until 2022.

³The residence adjustment is a net measure that captures the balance between the inflow of income into a jurisdiction by residents who earn income elsewhere and bring it in, and the outflow of income earned within the jurisdiction by individuals who reside elsewhere and take it out. Since New York City is a net outflow jurisdiction, this component is negative, and subtracted from total personal income.

⁴Other labor income is personal income provided in association with labor outside of earnings and wages, including employer contributions to private pension and retirement plans, and health insurance.

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