Insight

# Census Report on Income and Poverty in 2016: What's Driving the Headline Numbers?

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## SUMMARY POINTS


- In 2016, real median household income grew and both the official poverty rate and the number of people in poverty fell.
- The growth in real median household income is entirely due to a large increase in the number of full-time, year-round workers. Wages, however, remained stagnant.
- The growth in median household income and decline in poverty mainly accrued to demographic minorities, immigrants, the undereducated, and urban dwellers.


## INTRODUCTION

This week the U.S. Census Bureau released its latest estimates on income and poverty in the United States.[1] The headline numbers are eye popping: in 2016, real median household income grew by 3.2 percent, the official poverty rate declined by 0.8 percentage points, and the number of people living in poverty fell by 2.5 million. What's driving these figures? As the economy improves, workers from traditionally marginalized demographics—minorities, immigrants, the undereducated, the disabled—are reentering the workforce and switching from part-time to full-time work. This is evidenced by two facts. First, the increase in real household income appears to be driven not by an increase in wage rates, but by an increase in full-time, year-round employment. Second, most of the gains accrued to people traditionally on the margins as well as those living in urban areas. White and rural individuals, however, experienced a smaller increase in income and decline in poverty. This suggests that, in 2016, workers on the margins were the ones who benefited from more jobs and more full-time hours, while less marginalized workers experienced minimal improvements.

## WHAT'S CAUSING THE INCOME GROWTH?

After several years of stagnation, household income rose over the last two years and poverty declined. Real median household income rose 3.2 percent in 2016 after rising 5.2 percent in 2015. In total, real median household income is up 8.5 percent since 2014. With household incomes rising, poverty has declined. The Census Bureau estimates that in 2016, the official poverty rate was 12.7 percent, 0.8 percentage points below the 13.5 percent rate in 2015, and 2.1 percentage points lower than the 14.8 percent rate in 2014. Along with the decline in the official poverty rate is a decline in the actual number of people in poverty. In 2016, there were 2.5 million fewer people in poverty than in 2015, and 6 million fewer than in 2014.

The increase in household incomes led to a decline in poverty. But, how did we get here? To answer this question, we turn to the labor market. While some may be tempted to conclude from these figures that wages rose, the Census report suggests that these positive developments were due entirely to an increase in full-time employment. Specifically, for full-time, year-round workers median annual earnings in 2016 were not significantly different from in 2015. Rather than an increase in wages, household incomes rose because the number of full-time, year-round employees in the labor force has jumped over the last two years. The Census Bureau estimates that in 2016, total employment rose by 1.2 million and full-time, year-round employment increased by 2.2 million. This means that in 2016 the number of part-time employees actually declined by 1 million. So not only did full-time jobs account for the entire net increase in employment in 2016, but part-time workers began to upgrade to full-time hours.

Additionally, when real median household income rose by 5.2 percent in 2015, real earnings for full-time, year-round workers only rose by 1.5 percent for men and 2.7 percent for women. Again, with wage growth relatively weak, rising employment was primarily responsible for such a large jump in household income. Total employment rose by 3.3 million in 2015, with 2.4 million of those being full-time, year-round jobs and 900,000 being part-time jobs. Overall since 2014, total employment rose by 4.6 million, with full-time, year-round employment accounting for the entirety of the net growth in jobs. Meanwhile, 2015 remains the only year when earnings for full-time, year-round workers rose.

# WHOSE INCOMES ARE RISING?

In 2016, the increase in household incomes and decreases in poverty were mostly centered on traditionally marginalized demographics—racial and ethnic minorities, immigrants, the undereducated, and those with disabilities—as well as those living in urban areas. Meanwhile, household income and poverty improved less for demographic categories that are traditionally more economically secure. These include whites, non-immigrants, the educated, and the non-disabled. They also did not improve for those living in rural areas.

## Household Income

The marginalized racial and ethnic demographic categories experienced the largest growth in household income. In particular, those with the lowest household incomes experienced the most growth. Black and Hispanic households have the lowest median household incomes of $39,490 and $47,675. Yet, while overall real median household income rose by 3.2 percent in 2016, it increased by 5.7 percent for black households and 4.3 percent for Hispanic households. Meanwhile, real median income only rose by 2 percent for non-Hispanic white households ($65,041) and did not increase for Asian households ($81,431).

Median incomes rose more among foreign-born households than it did for native-born households. Real median income for foreign-born households was $55,559 in 2016, lower than the median income of $59,781 for native-born households. Yet, real median income increased by 4.9 percent for foreign-born households compared to just 3.3 percent for native-born households.

A similar trend occurs when examining households by family type. Specifically, among family households, married-couple households had the highest median income in 2016 of $87,057. Meanwhile, family households maintained by single women had the lowest median income of $41,027. For households maintained by single women, however, real median income rose by 7.2 percent. For married households, it only grew by 1.6 percent.

Finally, income growth differed substantially based on location as incomes grew in urban areas and remained stagnant in rural areas. In particular, while real household median income inside metropolitan statistical areas grew 2.5 percent in 2016, it was unchanged outside metropolitan areas.

### Poverty

Again, marginalized demographic categories experienced larger improvements than those who tend to be more economically secure. Starting with racial and ethnic categories, blacks and Hispanics had the highest poverty rates at 22 percent and 19.4 percent in 2016, respectively. However, while their poverty rates were highest, these were also the only two categories to experience any significant decline in poverty. In 2016, the poverty rate among blacks declined by 2.1 percentage points and the number in poverty fell by 786,000. The poverty rate for Hispanics declined by 2 percentage points and the number in poverty fell by 996,000. Meanwhile, the poverty rate for non-Hispanic whites and Asians in 2016 were 8.8 percent and 10.1 percent, both of which were statistically indistinguishable from the rates in 2015.

The poverty rate among foreign-born persons declined more than it did for native-born persons. The poverty rate for foreign-born persons was 15.1 percent in 2016, lower than the poverty rate of 12.3 percent for native-born persons. However, the poverty rate declined by 1.5 percentage points for foreign-born persons, which was double the 0.7 percentage point decline for native-born persons.

Other characteristics that correlate with lower incomes were also associated with larger declines in poverty. For instance, 26.8 percent of those who are disabled were in poverty in 2016, which was 1.8 percentage points lower than in 2015. Yet, while just 10.3 percent of those without a disability were in poverty, that was only 0.7 percentage points lower than in the previous year. In addition, among those 25 and older, the only education category that experienced a significant decline in poverty in 2016 was those without a high school diploma. Those with greater educational attainment did not experience any significant decline in poverty.

Finally, the decline in the official poverty rate was entirely driven by improvements in urban areas. While the poverty rate inside metropolitan areas declined by 0.8 percentage points, it did not significantly change in rural areas.

## CONCLUSION

The Census report on income and poverty in 2016 illustrates many positive developments for America's households and workers. Real median household income continued to rise and poverty continued to fall. Moreover, these trends were entirely due to a large increase in full-time, year-round workers, who are the least likely to be in poverty. It is important to understand, however, that these improvements in income and poverty were not felt by everyone. In particular, wages remained stagnant, as real median annual earnings for full-time workers were not significantly different from 2015. Additionally, given that the increase in household incomes and declines in poverty occurred mainly for those in lower-income demographic categories, it is likely that those same people are the ones who filled the new full-time jobs. Meanwhile, rural workers and less marginalized demographics, such as white and native-born individuals, experienced much smaller improvements.

[1] Jessica L. Semega, Kayla R. Fontenot, and Melissa A. Kollar, "Income and Poverty in the United States: 2016," US Census Bureau, US Department of Commerce, September 12, 2017, https://www.census.gov/library/publications/2017/demo/p60-259.html.