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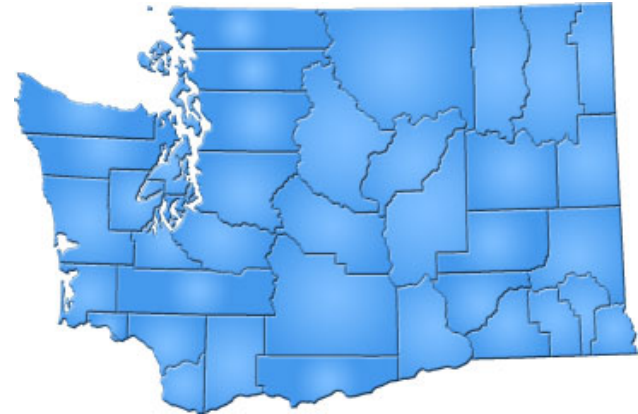
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Semiahmoo Resort
on the Canadian Border
Bellingham, WA

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The San Juan County Economy:
A Look at the Income
Side of the Coin



*Pacific Northwest
Regional Economic Analysis Project*



Dr. Gary W. Smith
PNREAP Director

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**Major Components of Personal Income:
Transfer Payments and Total Personal Income
San Juan County, Washington (1969-2006)**

Year	Transfer Payments				Total Personal Income			
	Current Dollars (1000s)	2000 Dollars ¹ (1000s)	Index ²	Percent Change ¹ of Total Income (2000 \$s)	Current Dollars (1000s)	2000 Dollars ¹ (1000s)	Index ²	Percent Change ¹ (2000 \$s)
1969	1,669	6,609	100.0	10.2	16,343	64,712	100.0	
1970	2,085	7,883	119.3	19.29	19,317	73,038	112.9	12.87
1971	2,497	9,056	137.0	14.87	22,142	80,300	124.1	9.94
1972	2,675	9,377	141.9	3.55	25,417	89,095	137.7	10.95
1973	3,247	10,794	163.3	15.12	30,251	100,565	155.4	12.87
1974	3,954	11,913	180.3	10.36	34,942	105,276	162.7	4.68
1975	4,888	13,595	205.7	14.12	38,329	106,603	164.7	1.26
1976	5,452	14,367	217.4	5.68	46,212	121,777	188.2	14.23
1977	6,382	15,793	239.0	9.93	53,960	133,531	206.3	9.65
1978	7,170	16,579	250.9	4.97	63,811	147,547	228.0	10.50
1979	8,260	17,552	265.6	5.87	73,857	156,946	242.5	6.37
1980	10,073	19,342	292.7	10.20	86,708	166,496	257.3	6.09
1981	11,916	21,008	317.9	8.61	101,319	178,630	276.0	7.29
1982	13,426	22,429	339.4	6.76	107,836	180,150	278.4	0.85
1983	14,820	23,736	359.2	5.83	118,004	189,000	292.1	4.91
1984	16,233	25,053	379.1	5.55	135,199	208,657	322.4	10.40
1985	17,994	26,882	406.8	7.30	143,027	213,677	330.2	2.41
1986	19,504	28,444	430.4	5.81	152,755	222,776	344.3	4.26
1987	20,745	29,240	442.5	2.80	163,169	229,987	355.4	3.24
1988	22,154	30,037	454.5	2.73	195,483	265,044	409.6	15.24
1989	23,371	30,363	459.4	1.08	222,224	288,708	446.1	8.93
1990	25,774	32,018	484.5	5.45	240,529	298,801	461.7	3.50
1991	28,196	33,800	511.5	5.57	262,315	314,455	485.9	5.24
1992	31,575	36,790	556.7	8.85	289,496	337,314	521.3	7.27
1993	35,319	40,225	608.7	9.34	317,291	361,363	558.4	7.13
1994	36,826	41,076	621.5	2.12	353,525	394,322	609.3	9.12
1995	40,512	44,238	669.4	7.70	360,031	393,146	607.5	-0.30
1996	43,428	46,424	702.5	4.94	387,049	413,748	639.4	5.24
1997	45,141	47,455	718.1	2.22	426,577	448,443	693.0	8.39
1998	47,542	49,534	749.5	4.38	474,631	494,521	764.2	10.28
1999	51,086	52,356	792.2	5.70	508,872	521,519	805.9	5.46
2000	55,843	55,843	845.0	6.66	532,664	532,664	823.1	2.14
2001	62,504	61,222	926.4	9.63	549,896	538,617	832.3	1.12
2002	67,124	64,828	981.0	5.89	560,884	541,697	837.1	0.57
2003	70,504	66,767	1010.3	2.99	591,258	559,919	865.2	3.36
2004	73,918	68,195	1031.9	2.14	664,334	612,899	947.1	9.46
2005	78,662	70,493	1066.7	3.37	701,616	628,756	971.6	2.59
2006	86,639	75,552	1143.2	7.18	779,258	679,536	1050.1	8.08

¹ 2000 constant dollar estimates determined using the chain-weight Implicit Price Deflator for Personal Consumption.

² Values are expressed as 100% for 1969 (2000 Dollars) and as a percent of 1969 for the following years.

Source: U.S. Department of Commerce, Bureau of Economic Analysis with calculations and table prepared by the Washington Regional Economic Analysis Project

**WA-REAP Analysis of Growth and Change
Among the Major Components of Personal Income
within San Juan County: 1969-2006**



Briefing Report Outline:

1. [Introduction](#)
2. [Graph - Major Components of Personal Income: San Juan County, 1969-2006](#)
3. [Graph - Major Income Components as a Percent of Total Personal Income](#)
4. [Graph - Income Growth Indices, San Juan County, 1969-2006](#)
5. [Graph - Major Income Components as a Percent of Total Personal Income: San Juan County, 1969-2006](#)
6. [Graph - Shifts in Share of Total Personal Income among Major Income Components](#)
7. [Graph - Earned Income as a Percent of Total Personal Income: San Juan County, Washington, and U.S.](#)
8. [Graph - Earned Income by Place of Residence: vs. Place of Work](#)
9. [Graph - Property Income as a Percent of Total Personal Income: San Juan County, Washington, and U.S.](#)
10. [Graph - Transfer Payments as a Percent of Total Personal Income: San Juan County, Washington, and U.S.](#)
11. [Graph - Indices of Structural Change among the Major Components of Income](#)
12. [Graph - Major Components Contributions to Real Total Personal Income Growth](#)
13. [Graph - 2006 vs. 1969 and Component Contributions to Real Income Growth, 1969-2006: San Juan County](#)
14. [Table 1 - Earned Income and Property Income: San Juan County, 1969-2006](#)
15. [Table 2 - Transfer Payments and Total Personal Income: San Juan County, 1969-2006](#)

Introduction



Paralleling a nationwide trend, the composition of San Juan County's total personal income has undergone dramatic change over the past three decades. With few exceptions, transfer payments and property income have increased in their importance, while labor-related earned income declined in relative share. But within this trend there notable and sometimes very extreme differences among individual counties and regions as to the extent of the shift in the composition of personal income among the three income components.

The annual total personal incomes estimates compiled by the *Bureau of Economic Analysis*, (BEA) are among the most comprehensive, consistent, comparable and timely measures of economic activity available on the county and statewide level. Personal income estimates are also the best available local level indicator of general purchasing power, and are therefore central to tracking and comparing county patterns of economic growth and change. Yet, unless there is understanding of the degree and magnitude of the pattern of growth and shifting composition among the three major components that underlie total personal income one cannot gauge or appreciate the underlying character of income as a barometer for the economic performance of the local economy. This report offers a comparative perspective by examining the changing structure and composition of San Juan County's personal income in relation to the state and nation at large.

Earned income can be view as compensation for labor services. **Property income** represents payments in the form of dividends, interest and rent for the services of capital owned by persons. In contrast to the other two components of income, **Transfer Payments** are by definition payments that are not related to the provision of services. Various aspects of each income component will be further defined and explained as this discussion and analysis unfolds.

Tables that report the data for the major components of San Juan County personal income are posted on the page just preceding this introduction.

Major Components of Personal Income: Earned Income and Property Income San Juan County, Washington (1969-2006)

Year	Earned Income					Property Income				
	Current Dollars (1000s)	2000 Dollars ¹ (1000s)	Index ²	Percent Change ¹ (2000 \$s)	Percent of Total Income	Current Dollars (1000s)	2000 Dollars ¹ (1000s)	Index ²	Percent Change ¹ (2000 \$s)	Percent of Total Income
1969	8,820	34,924	100.0		54.0	5,854	23,180	100.0		35.8
1970	10,109	38,222	109.4	9.44	52.3	7,123	26,932	116.2	16.19	36.9
1971	11,436	41,474	118.8	8.51	51.6	8,209	29,771	128.4	10.54	37.1
1972	13,331	46,730	133.8	12.67	52.4	9,411	32,989	142.3	10.81	37.0
1973	15,724	52,272	149.7	11.86	52.0	11,280	37,499	161.8	13.67	37.3
1974	17,537	52,837	151.3	1.08	50.2	13,451	40,526	174.8	8.07	38.5
1975	19,679	54,732	156.7	3.59	51.3	13,762	38,276	165.1	-5.55	35.9
1976	23,984	63,150	180.8	15.38	51.9	16,798	44,261	190.9	15.64	36.3
1977	26,903	66,575	190.6	5.42	49.9	20,675	51,163	220.7	15.60	38.3
1978	32,178	74,403	213.0	11.78	50.4	24,463	56,564	244.0	10.56	38.3
1979	37,385	78,443	227.5	6.77	50.6	28,212	59,950	258.6	5.99	38.2
1980	40,628	78,014	223.4	-1.80	46.9	36,007	69,141	298.3	15.33	41.5
1981	41,997	74,043	212.0	-5.09	41.5	47,406	83,579	360.6	20.88	46.8
1982	41,920	70,031	200.5	-5.42	38.9	52,490	87,689	378.3	4.92	48.7
1983	48,172	77,154	220.9	10.17	40.8	55,012	88,109	380.1	0.48	46.8
1984	54,615	84,289	241.4	9.25	40.4	64,351	99,315	428.5	12.72	47.6
1985	58,070	86,755	248.4	2.93	40.6	66,963	100,040	431.6	0.73	46.8
1986	62,198	90,706	259.7	4.55	40.7	71,055	103,628	447.1	3.58	46.5
1987	68,799	96,972	277.7	6.91	42.2	73,625	103,775	447.7	0.14	45.1
1988	82,265	111,538	319.4	15.02	42.1	91,064	123,468	532.7	18.98	46.6
1989	90,562	117,656	336.9	5.48	40.8	108,291	140,689	607.0	13.95	48.7
1990	109,000	135,407	387.7	15.09	45.3	105,755	131,376	566.8	-6.62	44.0
1991	115,896	138,932	397.8	2.80	44.2	118,223	141,722	611.4	7.88	45.1
1992	126,398	147,276	421.7	6.01	43.7	131,523	153,247	661.1	8.13	45.4
1993	134,978	153,724	440.2	4.38	42.5	146,996	167,414	722.2	9.24	46.3
1994	140,125	156,295	447.5	1.67	39.8	178,574	198,950	849.7	17.84	49.9
1995	146,264	159,717	457.3	2.19	40.6	173,255	189,191	816.2	-3.94	48.1
1996	149,150	159,439	456.5	-0.17	38.5	194,471	207,886	896.8	9.88	50.2
1997	166,995	175,555	502.7	10.11	39.1	214,441	225,433	972.6	8.44	50.3
1998	184,176	191,894	549.5	9.31	38.8	242,913	253,092	1091.9	12.27	51.2
1999	211,104	218,350	619.5	12.74	41.5	246,882	252,813	1090.7	-0.11	48.5
2000	218,446	218,446	625.5	0.97	41.0	258,375	258,375	1114.7	2.20	48.5
2001	226,327	221,685	634.8	1.48	41.2	261,085	255,710	1103.2	-1.03	47.5
2002	224,966	217,270	622.1	-1.99	40.1	268,794	259,599	1119.9	1.52	47.9
2003	237,272	224,696	643.4	3.42	40.1	283,482	268,456	1158.2	3.41	47.9
2004	254,689	234,970	672.8	4.57	38.3	335,727	309,734	1336.2	15.38	50.5
2005	266,653	238,962	684.2	1.70	38.0	356,301	319,300	1377.5	3.09	50.8
2006	286,249	249,618	714.7	4.46	36.7	406,370	354,367	1528.8	10.98	52.1

¹ 2000 constant dollar estimates determined using the chain-weight Implicit Price Deflator for Personal Consumption.

² Values are expressed as 100% for 1969 (2000 Dollars) and as a percent of 1969 for the following years.

Source: U.S. Department of Commerce, Bureau of Economic Analysis with calculations and table prepared by the Washington Regional Economic Analysis Project

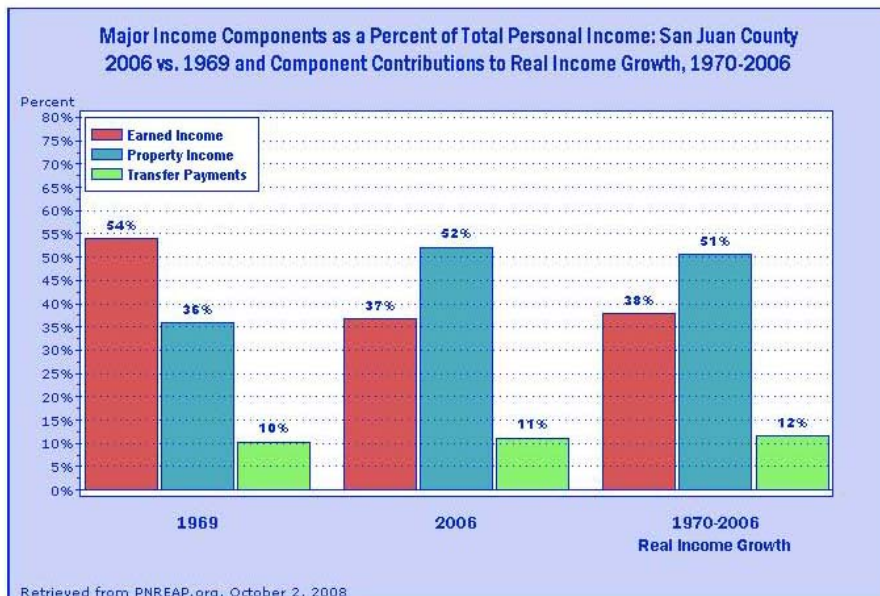


Figure 12.

Figure 12 recaps the theme and distills the results presented throughout this briefing report. In 1969 earned income comprised 54.0% of San Juan County's total personal income. However, over the following 38-year period 1969-2006 earned income accounted for only 37.8% of the annual real growth in San Juan County's personal income. As a result, by 2006 earned income's share declined to 36.7%.

Because property income alone accounted for 50.6% San Juan County's total personal income growth over 1969-2006, its share rose from 35.8% in 1969 to 52.1% in 2006. Transfer payments, in turn, advanced from 10.2% to 11.1% over the same period owing to its 11.6% contribution to the growth of San Juan County's total personal income.

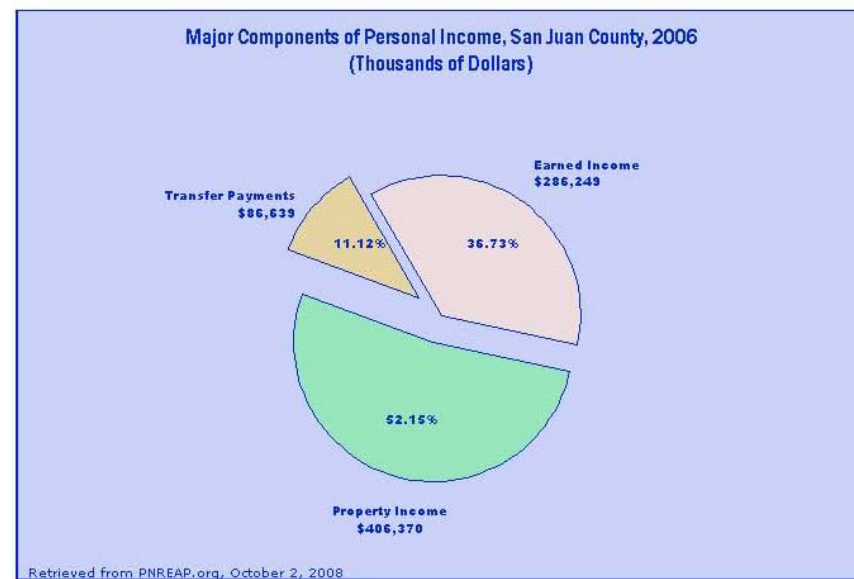


Figure 1.

Figure 1 depicts the composition of San Juan County's personal income among the three major components for 2006. Net earnings amounted to \$286,249,000 or 36.7% of total personal income; property income totaled \$406,370,000 or 52.1%; and transfer payments summed to \$86,639,000 comprising 11.1% of San Juan County's personal income in 2006. For every \$100 of personal income that accrued to the residents of San Juan County in 2006, about \$63.27 derived from property income and transfer payments.

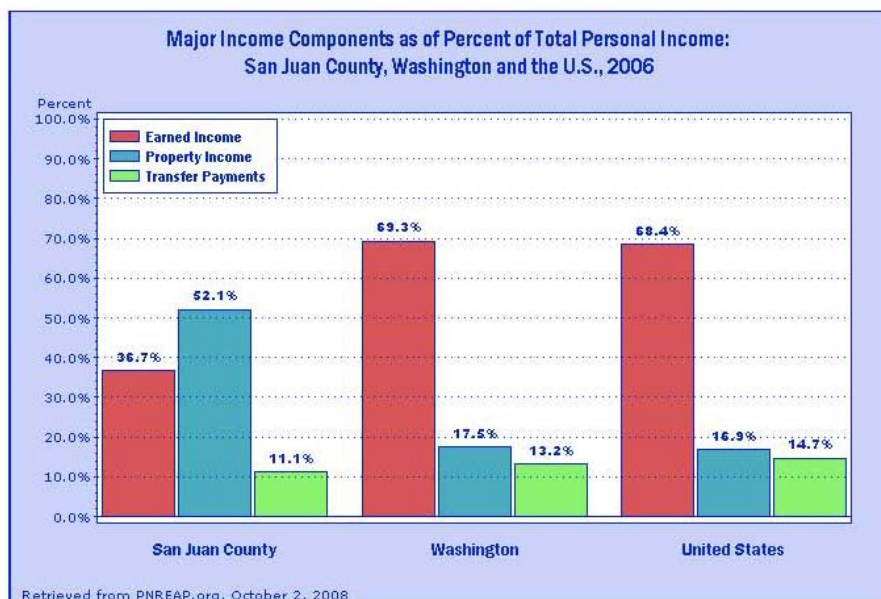


Figure 2.

What are the differences in personal income composition between San Juan County, Washington and the United States? Figure 2 illustrates three major income components—earned income, property income, and transfer payments as a percent of total personal income. The share of San Juan County's personal income that originates as property income (52.1%) is well above the share nationally (16.9%). The share of San Juan County's personal income that stems from transfer payments (11.1%) is below the national average (14.7%).

In combination, property income and transfer payments amounted to 63.3% (52.1% + 11.1%) of San Juan County's income in 2006. Earned income made up the balance (36.7%) of personal income, which amounted to a substantially smaller share than the corresponding 68.4% for earned income nationwide.

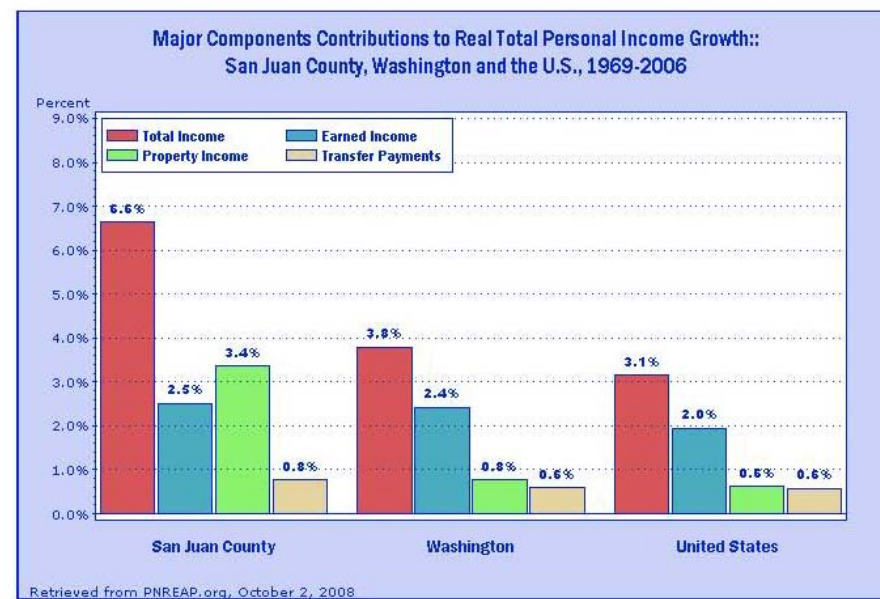


Figure 11.

This report thus far has centered primarily on examining and comparing changes in the composition of San Juan County's personal income compared with the state and nation over 1969-2006. Figure 11 focuses attention on how much each income component contributed individually to San Juan County's real personal income growth over the 38-year period. The annual growth rate of San Juan County's real (inflation adjusted) personal income averaged 6.64% over 1969-2006. Each component's individual contribution to this total amounted to 2.51% for earned income, 3.36% for property income and 0.77% for transfer payments, all of which sum to 6.64%.

In order to gauge each component's contribution to total real income growth the table below displays each components overall contribution to growth as a percent of total growth. Note, for example, transfer payments overall percentage contribution to the average total growth over 1969-2006 of 11.6% was derived by: $11.6\% = (0.77\% / 6.64\%) \times 100$.

			Earned Income		Property Income		Transfer Payments
San Juan County:	6.64%	=	2.51%	+	3.36%	+	0.77%
	(100%)		(37.8%)		(50.6%)		(11.6%)
Washington:	3.79%	=	2.43%	+	0.77%	+	0.60%
	(100%)		(64.1%)		(20.3%)		(15.8%)
United States:	3.15%	=	1.95%	+	0.62%	+	0.57%
	(100%)		(61.9%)		(19.7%)		(18.1%)

*Percent figures may not add due to rounding by a factor of ±0.1%.

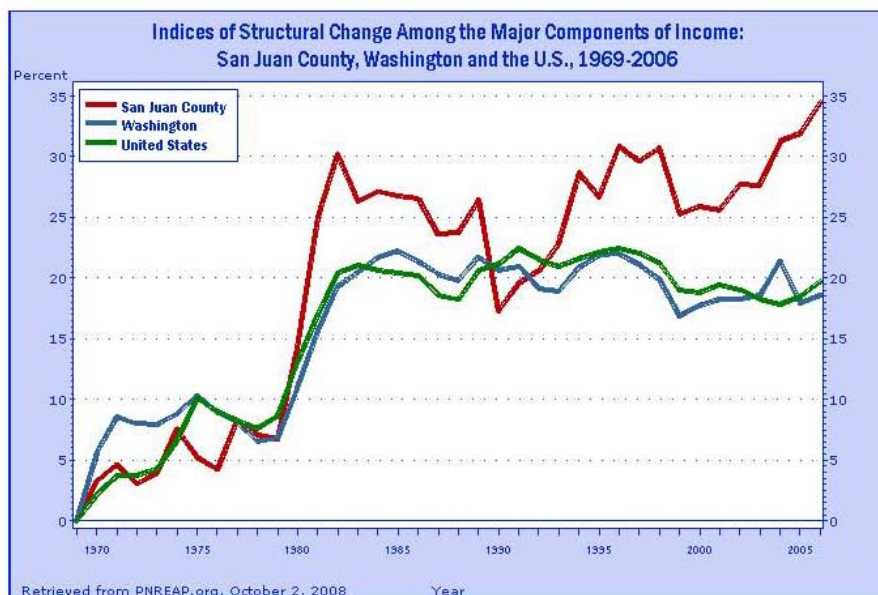


Figure 10.

Over the past several decades one of the more heralded changes that has transformed the character of our economy has been the structural shift in employment and earnings from goods-producing toward services-producing activities. Though far less widely publicized and less popularly understood, another change of major significance was the widespread shifts in the composition of personal income addressed in this briefing report.

The "index of structural change" shown in Figure 10 calibrates the timing and magnitude of change in the composition of San Juan County's personal income among the three major components compared with the state and nation over 1969-2006. The period of most dramatic change held in common by San Juan County, Washington and the nation spanned the period of the late 1970s to the mid-1980s.

Structural change is defined and measured here as the composite change in income shares among the three income components. Changes in shares are based on differences between each components share in 1969, and its share of personal income for each year since. Index values equal the sum of the absolute value of the share changes among the three income components year-over-year relative to 1969. A rise in the index indicates that in composition of income among the three major components deviated further away from their 1969 distribution.

Note: Figure 5 displayed the share shifts among the three income components over the interval 1969-2006. Accordingly, the 2006 value of the structural change indices for the county, state and nation are simply the sum of the absolute values of share shifts reported in Figure 5:

	Index Value (2006)	Shift-In Share		
		Earned Income	Property Income	Transfer Payments
San Juan County:	34.5%	+17.3	+16.3	+10.9
Washington:	18.6%	+9.3	+10.1	+9.3
United States:	19.8%	+9.9	+3.3	+6.6

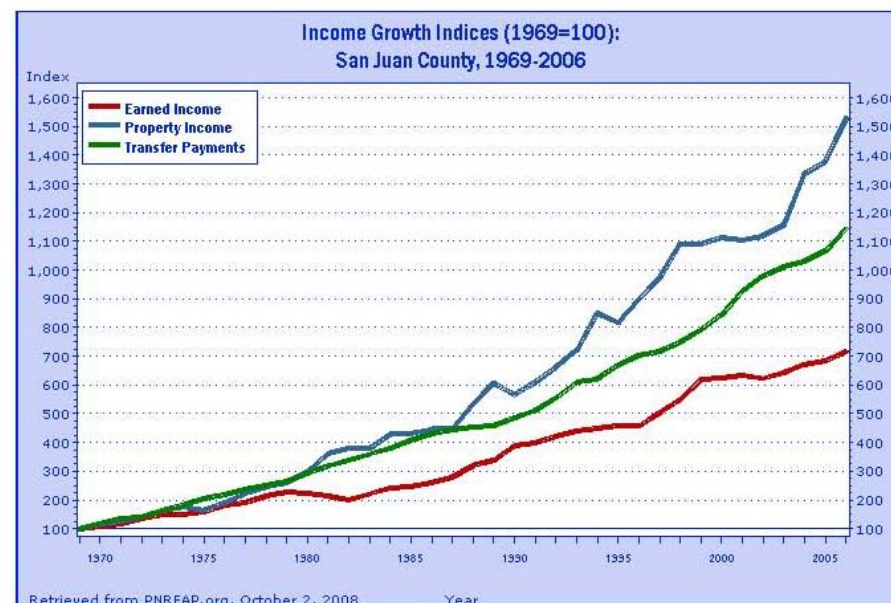


Figure 3.

One of the key objectives of this report is to highlight the growing importance over the past several decades of property income and transfer payments and to illustrate their emergence as more prominent components of local area personal income. Figure 3 compares the real (that is, removing the effects of inflation) cumulative growth of the three major components of personal income for San Juan County over 1969-2006. The cumulative growth indices express each income component as 100 for the base year of 1969, and represent each component in subsequent years as a percent of their level in 1969. The indices enable a direct comparison of the differences in the cumulative percentage growth of the earned income, property income, and transfer payments for San Juan County over more than three decades.

Over the 1969-2006 period, earned income in San Juan County grew by 614.7%. Property income, however, increased by 1428.8%, while transfer payments rose 1043.2%. As a general rule, the growth of property income and transfer payments outpaced the growth of earned income. As a result, earned income declined as a share of total personal income, while property income and transfer payments increased.

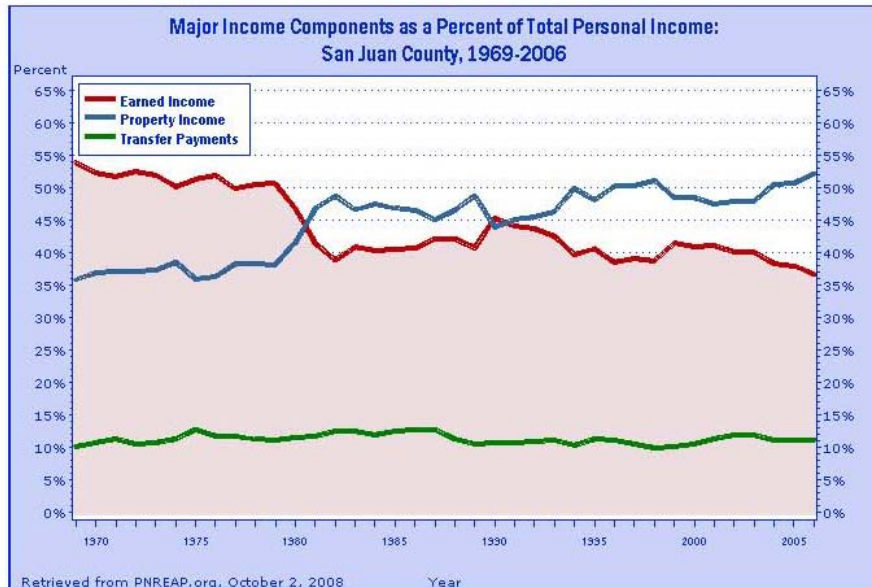


Figure 4.

While the previous graph illustrates the degree of growth among the three major components of personal income, the above figure traces their changing share and relative importance over time. Differences in growth among the three components income translates the changes in their relative share as shown here. Earned income as a share of San Juan County's personal income declined from 54.0% in 1969 to 36.7% in 2006, a shift in relative share of -17.3%. Offsetting this decline was a 16.3% increase in property income's share from 35.8% in 1969 to 52.1% in 2006; and a 0.9% advance in transfer payments share, from 10.2% to 11.1% over the same period.

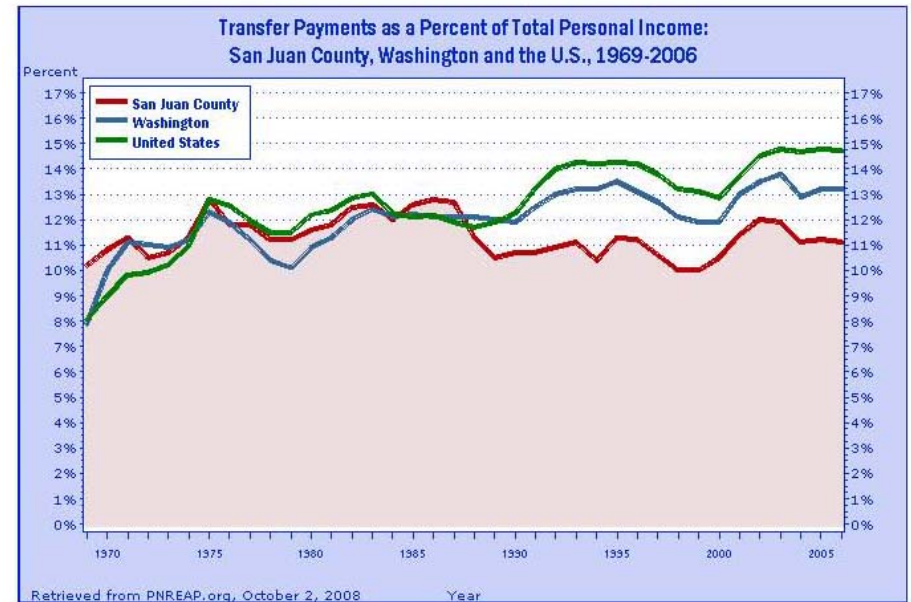


Figure 9.

People receive personal income either for participating in current production, or from transfer payments. Earned income and property income represent payments received for participating in production. Transfer payments, sometimes misleadingly referred to as "unearned income," are payments made by government to individuals "for which no current services are performed."

Compared with the trend nationwide, transfer payments have played a fairly important role in the changing composition of San Juan County's personal income. Nationally, transfer payments as a share of personal income advanced from 8.07% in 1969 to 14.71% in 2006, for a net gain of 6.64%. For San Juan County, transfer payments rose from 10.20% to 11.10% over 1969-2006, for a net gain of 0.90%.

There are vast differences in the mix of transfer payments counties receive, the particulars of which are beyond the scope of this report. As a general rule social security and government pension incomes make up the largest general category of transfer payments. Next in order of importance typically comes medical payments for such programs as Medicare, and Medicaid. Medical payments have driven much of the rapid growth in transfer payments over the past decade. Further down the scale of importance are payments for income maintenance programs such as Family Assistance, Food Stamps and Supplemental Security Income (SSI). Unemployment Insurance Payments is another category, often its relative size and importance is shaped by local economic conditions and more generally by the ebb and flow of business cycles. Finally, Veterans Benefits Payments is the remaining category of importance. Generally veteran's pension and disability payments dominate this group. You may obtain a detail tabulation of the transfer payments received by San Juan County residents over 1969-2006 by [clicking here](#).

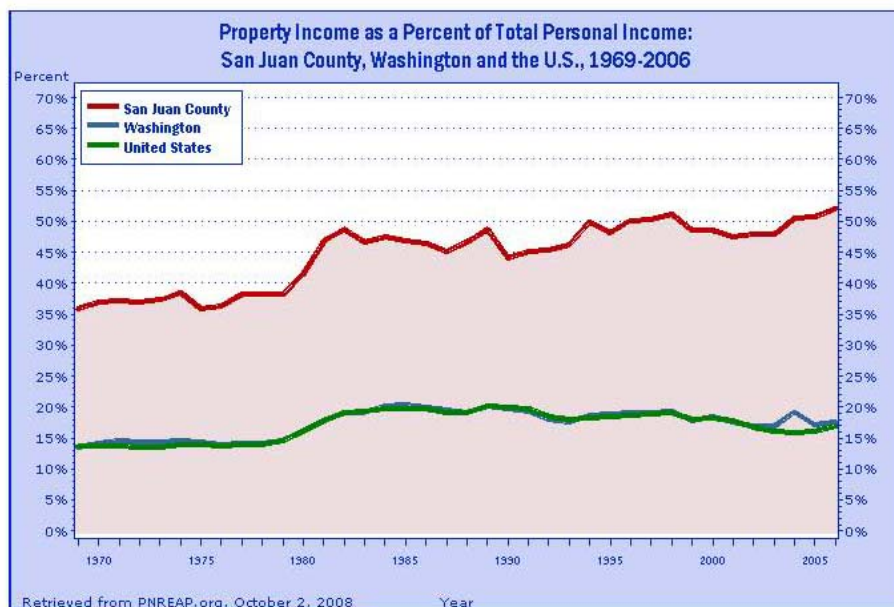


Figure 8.

Figure 8 tracks property income as a share of personal income locally, statewide and nationally over 1969-2006. Common to all three was the discernable rise and advance to another plateau in property's income share over 1979-82. This period was plagued by double-digit rates of inflation and associated double-digit rates of interest. As interest income is an important part of property income they played a leading role in the growth and rise in share of property income over 1979-82. Moreover, contained within the period 1979-82 were two back-to-back recessions. Unlike many recessions, the early 1980s recessions were widely dispersed regionally so declines in earned income's share declines were oftentimes observed, which further served to bolster property income's share during this period.

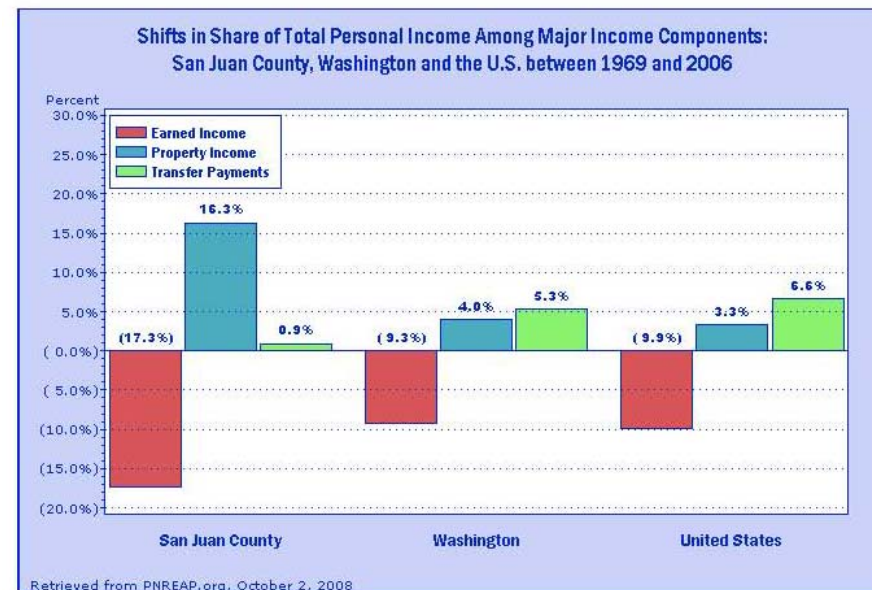


Figure 5.

How does the shift in personal income composition for San Juan County compare with the shifts in share among the three major components for Washington and the United States over 1969 to 2006? In the above figure, earned income's share statewide and nationally declined by -9.3% and -9.9%, respectively, whereas earned income's share decline by -17.3% in San Juan County over 1969-2006. Nationally the shift in share of property income and transfer amounted to 3.3% and 6.6%, respectively, while the corresponding shifts in share in San Juan County amounted to 16.3% and 0.9%, respectively.

When a notable increase in property income's share is observed often this associates with a county or region that experienced an influx of relatively affluent retirees.

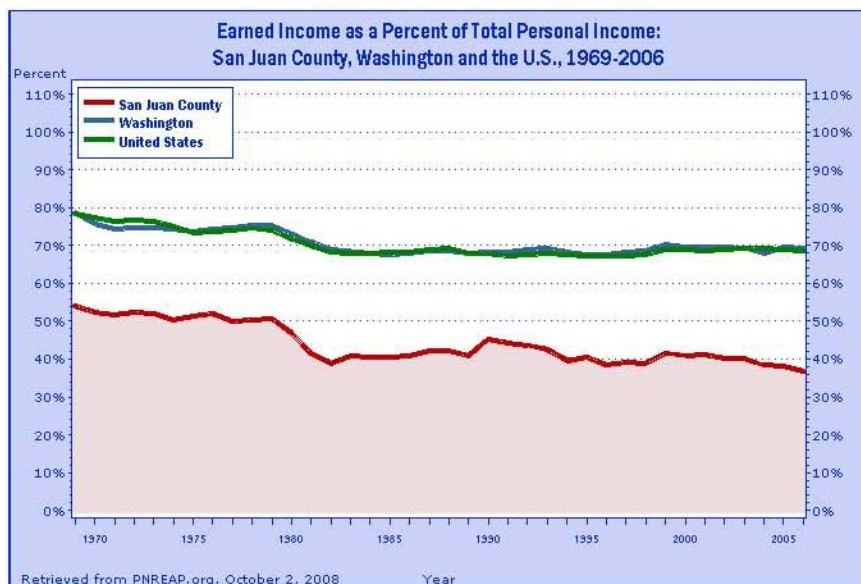


Figure 6.

Figure 6 above traces earned income as a percent of personal income for San Juan County, the state and nation over 1969-2006. Generally, local as well as state and national earned income share declines were most prominent from 1979 to the mid-1980s.

Some localities and regions experienced pronounced short-term swings in earned income because earnings generation was concentrated in industries especially sensitive to major cyclical swings in the national economy. Mining, wood products and durable goods producing manufacturing, such as primary metal and transportation (including air and motor vehicle equipment), are among the most notable cyclically sensitive industries.

Agricultural dependent regions are especially subject to pronounced swings in earned income owing to the influence of weather on output and production, international swing in commodity prices, changes in government programs, as well as general cyclical conditions and trends. Finally, other factors that have induced abnormal short-term swings in earned income include major natural catastrophes and very large-scale private or government construction project such as the building dams and power plants.

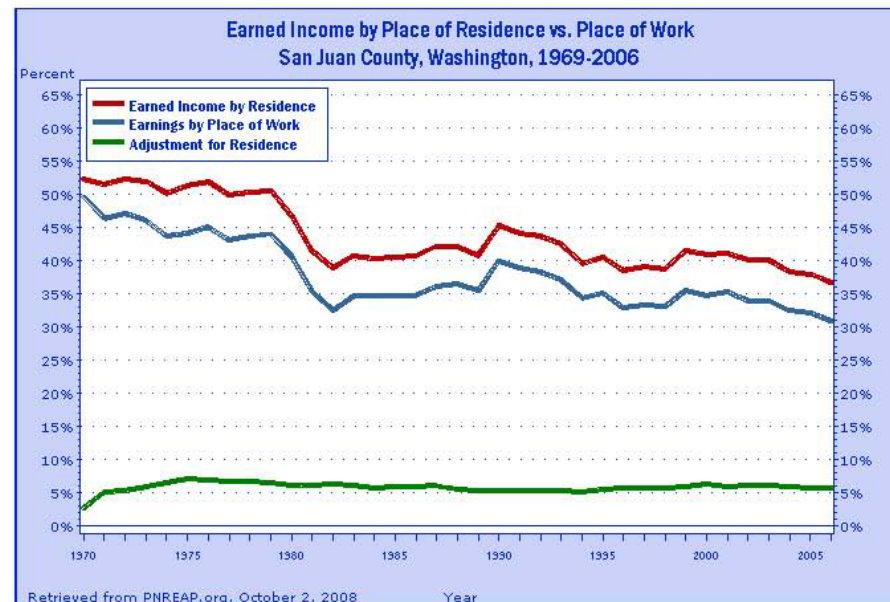


Figure 7.

Figure 7 focuses on a very important dimension of earned income that needs to be addressed and explained. Personal income, and its three major components, is intended to measure the incomes of the residents of a region. Accordingly, the earned income data reported and presented in this report are "by place of residence." But in fact, earnings data are first collected and reported as "earnings by place of work." That is, they reflect earnings on the basis of where workers work, and not on the basis of where they live. To develop an estimate of earned income based on where workers live, the *Bureau of Economic Analysis* develops an "adjustment for residence" to take into account the earnings of such intercounty commuters.

In addition to showing "earned income by place of residence" as a share of total income, Figure 7 also displays "earnings by place of work," as well the residence adjustment which accounts for the difference between the two. This positive adjustment for residence of 5.78% as a percent of total personal income in 2006 reflects an estimated net inflow of earnings dollars owing to the overall net effect of workers commuting to and from San Juan County in 2006. So, in 2006 5.78% of San Juan County's personal income derived from workers who reside locally but who generated earnings from jobs held outside the county.

Put another way, the residence adjustment is a fairly significant factor in shaping the personal income of San Juan County. For every \$100 of personal income reported for San Juan County residents in 2006, \$5.78 derived from jobs held and earnings garnered from outside the county.