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IBISWorld Business Environment Report

Per capita disposable income

March 2013

Estimated Value in 2013: $33,050

2008-2013 Compound Growth: -0.1%

Forecast Value for 2018: $37,161

2013-2018 Compound Growth: 2.4%

Per capita disposable income determines an individual's ability to purchase goods or services. It is calculated by taking income earned from all sources (wages, government transfers, rental income etc) minus taxes, savings and some non-tax payments (e.g. fines, forfeitures and donations) and dividing by the total US population. The data for this report is sourced from the Bureau of Economic Analysis and presented in chained 2005 dollars.

Current Performance

The financial meltdown and subsequent recession reversed a seventeen year streak of positive growth in disposable incomes. The primary drag on income was felt by millions of Americans who lost their jobs or were unable to join the workforce for the first time. Job losses started in the financial sector but quickly spread from Wall Street to Main Street as credit tightened and businesses saw demand wither in the face of uncertainty. The national unemployment rate climbed from 4.6% in 2007 to 10.6% in early 2010, crippling spending power across the United States and through all income brackets. Even Americans who retained their jobs were afflicted by stagnant wages, furloughs and diminished nest eggs. Given the possibility of an even bleaker future, individuals increased their savings rate from a low of 1.4% in 2005 to 5.9% in 2009, reducing the amount available for purchasing goods or services.

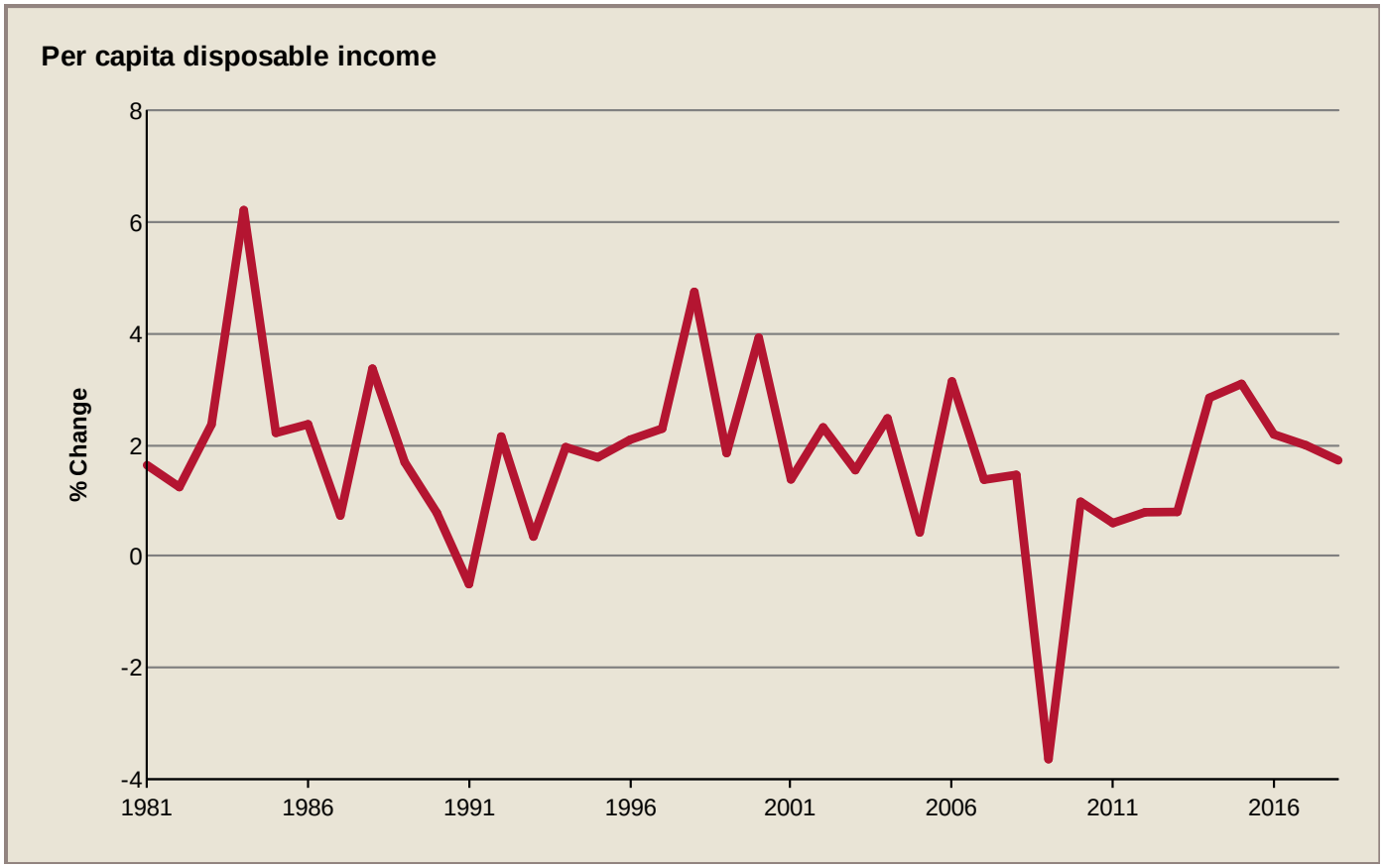
The impact of job losses and higher savings were partially offset by a larger safety net, with government assistance programs extended and expanded to unprecedented levels. However, these programs could only partially negate the impact of the economic collapse, with disposable income growth slipping by 3.6% in 2009. But conditions stabilized in 2010, allowing some of the storm clouds hanging over disposable income levels to retreat. Firstly, corporate profits surged, generating profits for owners and restoring battered stock portfolios. This eased pressure on businesses to keep wage costs down and boosted consumer sentiment, leading to both higher earned incomes and receding savings rate. Consequently, per capita disposable income edged up by an anemic but positive 1.0% in 2010. These initial signs of recovery were expected to make further gains in 2011 and 2012 paving the way for a more robust rebound. However, the rebound was limited by unrelenting unemployment, a housing market trapped in the doldrums and by public debt domestically and abroad. Consequently, growth in disposable incomes weakened to 0.6% and 0.8% in 2011 and 2012, respectively. Rising prices in 2013 will continue to pressure growth in real disposable income, particularly for those in the lower income group. During the year, per capita disposable income is expected to increase 0.8% to $33,050.

Outlook

IBISWorld expects economic indicators that drive disposable income levels to steadily strengthen over the outlook period. A greater number of Americans returning to work will combine with improved housing and stock values to make consumers willing to spend on purchases delayed during the recession. However, future growth will be tempered relative to the boom leading up to the recent downturn. This is because the belief in ever rising house prices and unsound lending practices that created the bubble will not be present to inflate natural growth. Consequently, positive job growth and lower savings will lead positive growth, but at a slower annualized rate compared to the five years to 2006. Furthermore, growth in per capita disposable income will be hindered by the inevitably higher tax rates needed to balance the fiscal deficit and pay for the dual stimulus packages. The wealthiest individuals and households will generate the slowest real income growth from 2014 through 2018 as a consequence. Rising prices for high-end luxury goods and increasing mortgage costs as houses become less affordable will also contribute to slowing growth for the wealthier population.

Data Volatility

Per capita disposable income displays a low level of volatility. It is important to note that this measure looks only at income available for spending, after taxes and savings. This feature has allowed for American spending income to be extremely stable over the long term as individuals are able to tap into savings accounts and alternate income streams (e.g. unemployment payments from the government) to maintain their lifestyles in the short term. Additionally, due to the progressive income tax in the US, individuals with lowered incomes pay a smaller proportion in taxes and thus retain a greater share for potential expenditures. Meanwhile, in more prosperous times, these factors work in reverse and constrain disposable income from rising quickly.



Year	$	% Change
1981	19,160	1.64
1982	19,399	1.25
1983	19,859	2.37
1984	21,094	6.22
1985	21,562	2.22
1986	22,074	2.37
1987	22,236	0.73
1988	22,986	3.37
1989	23,375	1.69
1990	23,558	0.78
1991	23,441	-0.50
1992	23,946	2.15
1993	24,032	0.36
1994	24,504	1.96
1995	24,940	1.78
1996	25,463	2.10
1997	26,048	2.30
1998	27,286	4.75
1999	27,793	1.86

Year	$	% Change
2000	28,885	3.93
2001	29,285	1.38
2002	29,964	2.32
2003	30,429	1.55
2004	31,184	2.48
2005	31,318	0.43
2006	32,303	3.15
2007	32,749	1.38
2008	33,229	1.47
2009	32,020	-3.64
2010	32,335	0.98
2011	32,529	0.60
2012	32,788	0.80
2013	33,050	0.80
2014	33,992	2.85
2015	35,046	3.10
2016	35,815	2.19
2017	36,530	2.00
2018	37,161	1.73

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