

5 WAYS TO MEASURE PROSPERITY IN TENNESSEE

What Common Economic Indicators Do and Don't Tell Us

KEY TAKEAWAYS

- Economic growth is important for [thriving communities](#) and a prosperous Tennessee.
- There are many ways to measure growth and prosperity, and no single metric tells the whole story. It takes a combination of economic indicators to get the full picture.
- The five metrics discussed here measure different aspects of the economy, and each has pros and cons.

Tennessee's economy frequently tops the list of concerns for politicians and voters alike. However, different metrics may paint very different pictures of the health of our economy and the prosperity of Tennesseans.

Many Ways to Measure the Economy

There are many ways to measure growth and prosperity, and no single metric tells the whole story. For example, Tennessee's record low unemployment rate in 2019 was below the national average. However, the share of working-age Tennesseans in the labor force was also consistently below the national average – in part, due to poorer health and lower levels of [education](#). (1)

Focusing on just one metric could cause us to overlook information with major implications for Tennessee's long-term prosperity and the financial security of its citizens.

The 5 Metrics We'll Examine

This report focuses on five common metrics that policymakers and the media use to evaluate Tennessee's economy. They include (click each link for a deeper dive):

- [Unemployment](#)
- [Labor force participation](#)
- [Gross domestic product](#)
- [Personal and household income](#)
- [Poverty](#)

3 Key Aspects of Each Metric

As we look at each metric, we'll examine what (if anything) it tells us about:

- 1) The overall state of Tennessee's economy.
- 2) Tennessee's workforce and its productivity.
- 3) The economic security of individual Tennesseans and their families.

Types of Economic Indicators

Economists often categorize metrics based whether they signal changes in the overall economy before, during, or after the fact.

- **Leading Indicators** usually change ahead of the overall economy and help predict future economic shifts (although those predictions do not always come true). Retail sales and the stock market are examples of leading indicators.
- **Coincident Indicators** change at about the same time as the overall economy and describe the current state of the economy. Personal income is an example of a coincident indicator.
- **Lagging Indicators** usually begin to change after the overall economy and can help confirm predictions about economic patterns. Unemployment rates and price inflation are examples of lagging indicators.

What Does “The Economy” Even Mean?

In the simplest terms, the economy consists of people exchanging items of value. For example, an employer gives you money in exchange for your work. You give other people money in exchange for goods and services like food, housing, and transportation. Businesses use the money they get from you to pay their employees, get more customers, create new/better products, and hire more people. The economy is, in short, a cycle. (2)

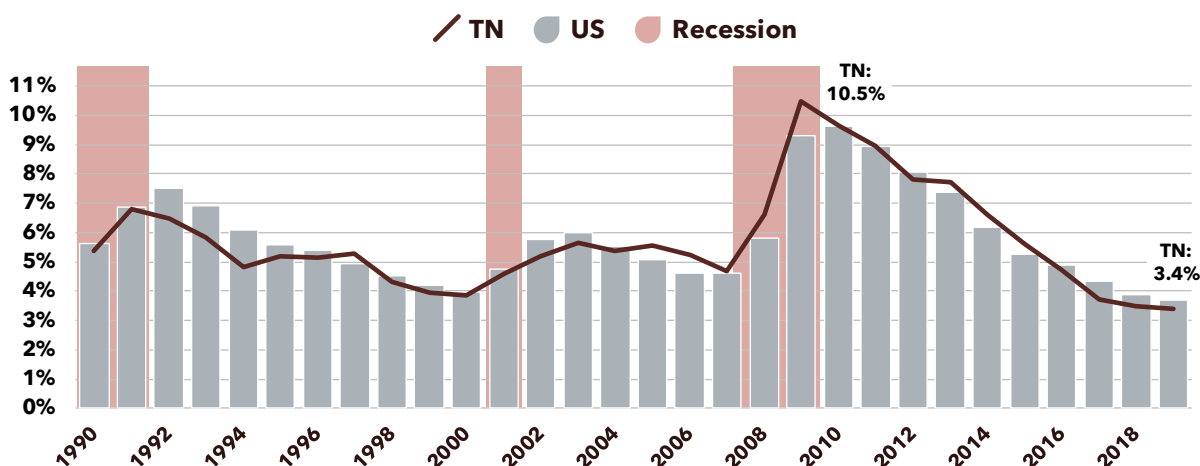
In practice, the economy is much more complicated. Competition, investment, regulations, taxes, trade, population trends, technological innovations, and many other factors affect how and to what extent people engage in economic activity.

The Highlights

Below we provide the key takeaways of our analysis of each metric.

Figure 1. Tennessee’s Unemployment Rate Reached an Historic Low in 2019

Annual Unemployment Rate (1990-2019)



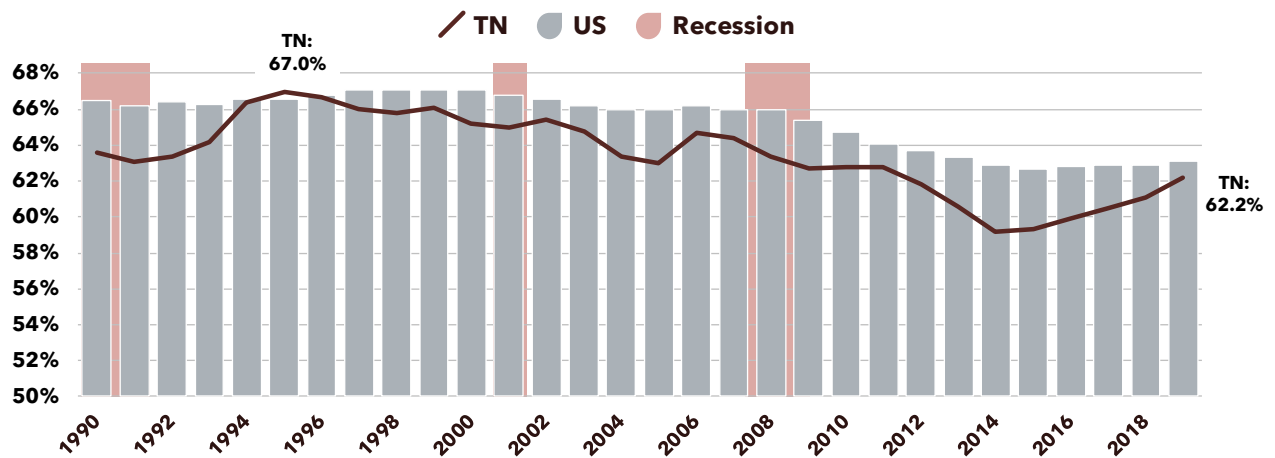
Source: U.S. Bureau of Labor Statistics via the Federal Reserve Bank of St. Louis (3) (4)

Unemployment

- The [unemployment rate](#) measures the percent of the labor force without a job. It is one of the most common metrics used to describe the economy and labor market.
- Tennessee’s unemployment levels reached historic lows in 2019 and were better than the national average (**Figure 1**).
- The unemployment rate can serve as a proxy for general economic conditions.
- It does not, however, tell us about the size, productivity, or participation of Tennessee’s potential pool of workers and can obscure disparities between groups within an area.

Figure 2. The Gap Between Tennessee’s Labor Force Participation and the National Average Has Narrowed in Recent Years

Labor Force Participation Rate (1990-2019)



Source: U.S. Bureau of Labor Statistics via Federal Reserve Bank of St. Louis (5) (6)

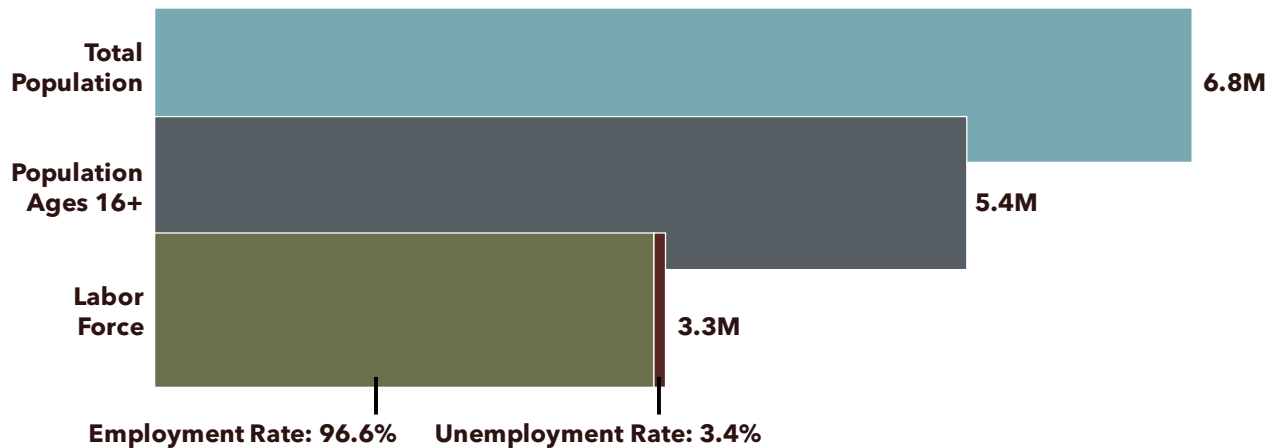
Labor Force Participation

- The [labor force participation rate](#) measures the share of a population age 16 and older that is working or actively looking for work. It is a common way to measure the health of the labor market.
- Tennessee’s labor force participation rate is consistently lower than the national average, but the gap has narrowed in recent years as the state’s rate has grown (**Figure 2**).
- The labor force participation sheds light on people’s willingness to work at any given time but show why some people aren’t working or seeking work. It can also obscure disparities among groups within an area.
- Labor force participation can fluctuate due to trends that are not necessarily tied to the health or distress of the broader economy.

Figure 3 displays the relationship between Tennessee’s population, labor force participation, and employment figures.

Figure 3. Tennessee’s Labor Force Does Not Include All Adults

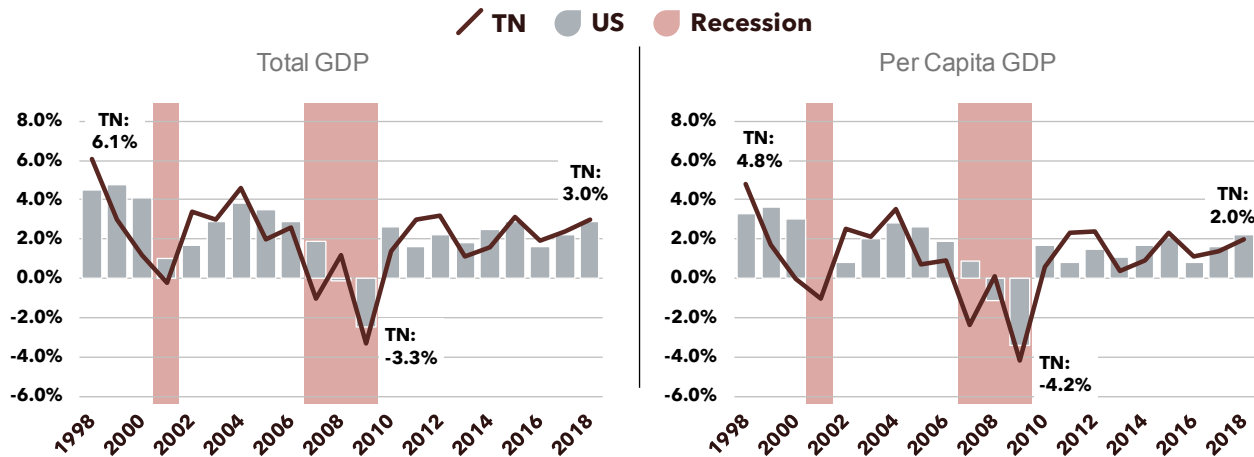
Tennessee Employment Statistics (2019)



Source: U.S. Bureau of Labor Statistics (7) and the U.S. Census Bureau (8)

Figure 4. Tennessee’s Total GDP Grew Faster than Most Other States’ After the Great Recession

Annual Change in Inflation-Adjusted Gross Domestic Product (1988-2018)



Note: Data are based on real GDP in chained 2012 dollars.
Source: Bureau of Economic Analysis (9)

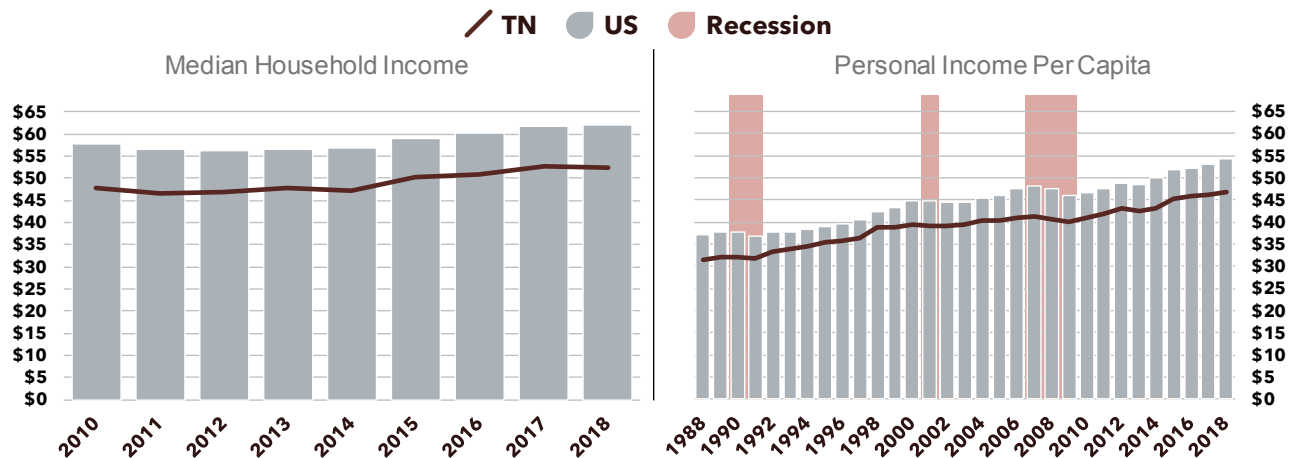
Gross Domestic Product

- Gross domestic product (GDP) estimates the total dollar value of all goods and services produced in an economy during a specific period.
- Tennessee’s GDP grew faster than most other states’ after the Great Recession but slower than during past recovery periods (**Figure 4**).

- GDP is calculated quarterly and provides a standardized way to track the overall size of an economy over time and across areas.
- While GDP provides valuable information about goods and services, it does not capture many important aspects of and contributions to economic well-being.

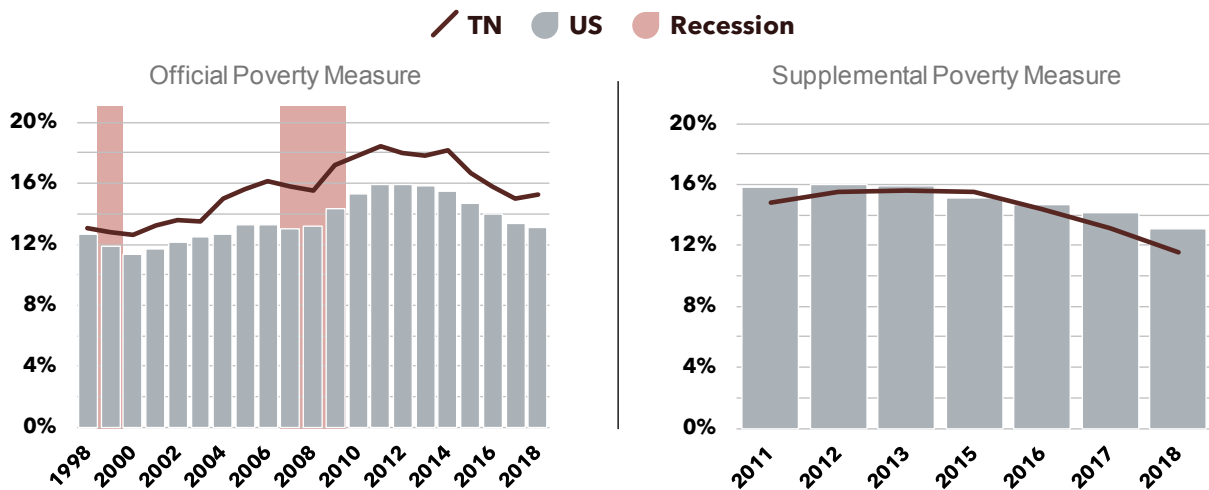
Figure 5. Tennesseans’ Incomes Reached Historic Highs in 2018 but Remained Below National Averages

Inflation-Adjusted Income (in thousands)



Note: Data are in 2018 CPI-U-RS adjusted dollars
 Source: U.S. Census Bureau and Bureau of Economic Analysis (10) (11) (12)

Figure 6. Tennessee’s Poverty Rates Have Trended Downward in Recent Years



Notes: State-level supplemental poverty measure rates were not published for 2014. The supplemental poverty measure represents a 3-year average (e.g. 2018 represents an average over 2016-2018).
 Source: U.S. Census Bureau (13) (14) (15)

Personal & Household Income

- [Household income and personal income](#) gauge the resources that Tennesseans have from wages and some (but not all) other sources of income.
- Measures of Tennesseans' income reached historic highs in 2018 but remained below the national average (**Figure 5**).
- Both metrics provide important information about many of the financial resources available to most Tennessee families, but topline figures can obscure disparities among groups.
- Neither measure is a comprehensive assessment of economic well-being because they do not account for wealth or some types of earnings and public assistance.

Poverty

- [Poverty rates](#) estimate the share of people with economic resources below certain thresholds for meeting basic needs. The official poverty measure is widely seen as flawed but is the most often used.
- In Tennessee, the official poverty measure is above the national average while the supplemental poverty measure is below the national average. Both rates have trended downward in recent years (**Figure 6**).
- Poverty data offer standard metrics of how many people find it hard to meet their needs across time periods, areas and demographics. However, topline rates can obscure disparities among groups.
- The official poverty rate does not count some resources that may help a family to meet basic needs and does not necessarily reflect those needs' current costs or how they vary across and within states.

Parting Words

There are many reasons for policymakers and citizens to care what these five metrics do and don't say about Tennessee's economy. For example, the economy affects [our state budget](#) – the foundation for state policymakers' goals for Tennessee. We also know that our prosperity and the health of our citizens have a [complex and mutually influential relationship](#). For instance, [Tennessee's high rates of chronic disease affect our workforce](#) and [impose a significant cost on our economy](#). Research also shows that [people with more income, wealth, education, and social standing tend to live longer, healthier lives](#).

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The series of policy briefs summarized here cites each of the sources listed below at least once. For specific citations, please see the full briefs on [unemployment](#), [labor force participation](#), [GDP](#), [income](#), and [poverty](#).

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MEASURING PROSPERITY: THE UNEMPLOYMENT RATE

What It Means, How Tennessee Is Doing, and the Trade-Offs

This is part of our series on the pros and cons of [five common ways to measure prosperity and economic growth in Tennessee](#).

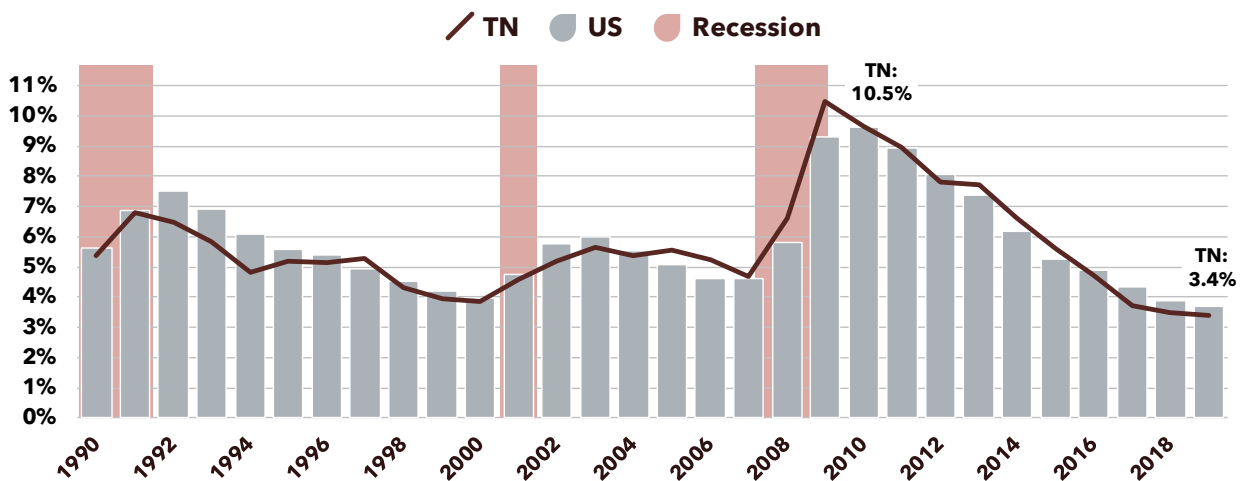
The unemployment rate tells us about the share of people who do not have a job. Unemployment represents untapped potential for people to earn a living by producing goods and services. Lack of a job often negatively affects incomes, spending, savings, and well-being – both at the individual and family levels and across the economy. As a result, unemployment is one of the most common metrics used to describe the health of our economy and labor market, while many state and local economic development efforts focus on reducing it. (1) (2)

KEY TAKEAWAYS

- The unemployment rate measures the percent of the labor force without a job. It is one of the most common metrics used to describe the economy and labor market.
- Tennessee’s unemployment levels reached historic lows in 2019 and were better than the national average.
- The unemployment rate can serve as a proxy for general economic conditions.
- It does not, however, tell us about the size, productivity, or participation of Tennessee’s potential pool of workers and can obscure disparities between groups within an area.

Figure 1. Tennessee’s Unemployment Rate Reached an Historic Low in 2019

Annual Unemployment Rate (1990-2019)



Source: U.S. Bureau of Labor Statistics via the Federal Reserve Bank of St. Louis (3) (4)

What is the Unemployment Rate?

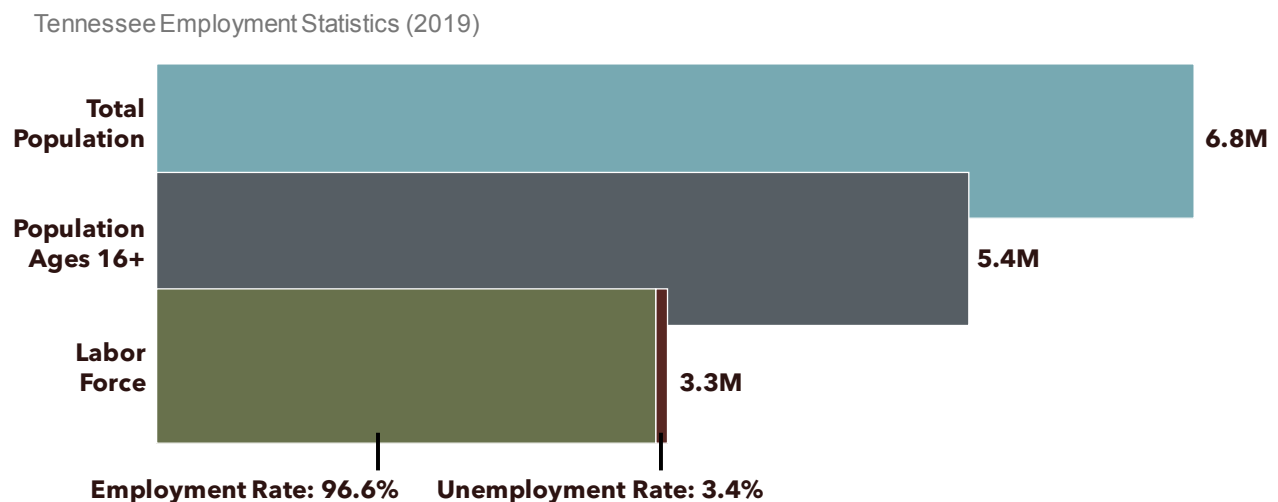
The unemployment rate measures the percent of the labor force without a job. The U.S. Bureau of Labor Statistics considers a person unemployed if they do not have a job but are available to work and have been actively looking for work in the prior four weeks. The labor force includes both those who are considered unemployed and individuals who are already working. (5)

Unemployment in Tennessee

Tennessee's unemployment levels reached historic lows in 2019 and were better than the national average (Figure 1). As of February 2020, Tennessee's seasonally-adjusted unemployment rate was 3.4% – the 24th lowest in the country. (6) In 2019, Tennessee's unemployment rate was 3.4% – the state's lowest annual unemployment rate in history. **Figure 2** displays how the unemployment rate relates to the states labor force and the broader population.

During the Great Recession, Tennessee's unemployment rate reached a high of 10.5% – the highest annual unemployment rate over the last 3 decades and the 3rd highest annual unemployment rate since 1976.

Figure 2. Tennessee's Labor Force Does Not Include All Adults



Source: U.S. Bureau of Labor Statistics (7) and the U.S. Census Bureau (8)

Trade-Offs of Using Unemployment to Measure Prosperity

Advantages of the Measure

The unemployment rate offers several advantages for tracking and describing the economy.

- **The unemployment rate can serve as a proxy for general economic conditions.** Historically, the unemployment rate correlates with overall economic growth – when unemployment is low, economic output is generally higher. Trends in the official unemployment rate also track closely with more comprehensive measures of the labor market, such as labor force participation, wages, and hours worked. (2) (9)
- **The rate provides a standardized way to track changes in the economy over time across geographic areas.** Data are collected and reported every month at the national, state, and county levels.

Limitations of the Measure

The unemployment rate also has several characteristics that prevent it from offering a comprehensive picture of Tennessee’s potential pool of workers. (10)

- **The unemployment rate does not account for everyone in Tennessee’s labor market.** “Discouraged” workers who leave the labor force after long periods without a job do not count as unemployed.
- **It does not explain the “why” behind people’s employment situations.** The unemployment rate does not differentiate between employed and “underemployed” workers – e.g. people with part-time or temporary jobs who want more hours or a permanent job. Nor does it capture the reasons people are not working, how long they have been unemployed, or why part-time workers are not working full-time.
- **Monthly unemployment rates do not provide information about differences across demographic groups within an area.** Like all population-level metrics, topline figures can obscure disparities.
- **Unemployment may fall even when the economy is not improving.** For example, if more workers become discouraged and stop looking for work, the unemployment rate will drop even if there is no increase in people working.
- **The unemployment rate does not measure the quality or adequacy of employment.** The metric does not capture average wages, amount of hours worked, or the presence or absence of benefits.

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MEASURING PROSPERITY: LABOR FORCE PARTICIPATION

What It Means, How Tennessee Is Doing, and the Trade-Offs

This is part of our series on the pros and cons of five common ways to measure prosperity and economic growth in Tennessee.

Labor force participation tells us about the current and potential size of Tennessee’s workforce.

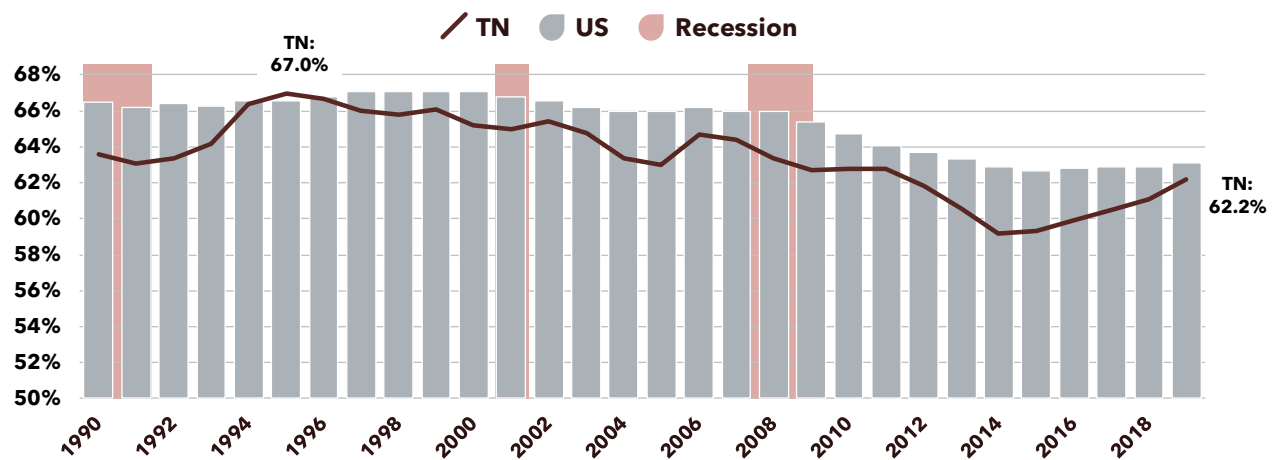
Tennessee’s ability to produce the goods and services that drive the economy depends in part on the availability of people to work. (1) Meanwhile, workforce participation fundamentally affects families’ incomes, both spending and savings - with implications for both individual well-being and our entire economy.

KEY TAKEAWAYS

- The labor force participation rate measures the share of a population age 16 and older that is working or actively looking for work. It is a common way to measure the health of the labor market.
- Tennessee’s labor force participation rate is consistently lower than the national average, but the gap has narrowed in recent years as the state’s rate has grown.
- The labor force participation rate sheds light on people’s willingness to work at a given time but doesn’t show why some aren’t working or seeking work. It can also obscure disparities among groups in an area.
- Labor force participation can fluctuate due to trends that are not necessarily tied to the health or distress of the broader economy.

Figure 1. The Gap Between Tennessee’s Labor Force Participation and the National Average Has Narrowed in Recent Years

Labor Force Participation Rate (1990-2019)



Source: U.S. Bureau of Labor Statistics via Federal Reserve Bank of St. Louis (2) (3)

What is Labor Force Participation?

Labor force participation measures the share of a population age 16 and older that is working or actively looking for work. (4) Unemployment rates and labor force participation rates typically move in opposite directions: when unemployment falls, labor force participation usually rises. Examples of people not considered part of the labor force include those who are retired or too sick to work, full-time parents and students, and “discouraged workers” who want a job but have not looked for one in the past four weeks.

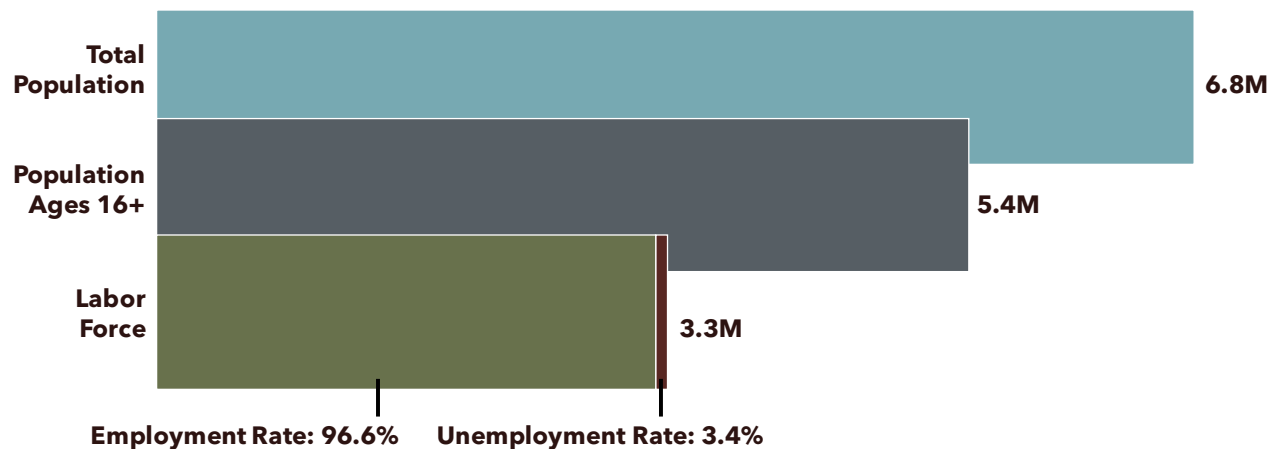
Labor Force Participation in Tennessee

Tennessee’s labor force participation rate is consistently lower than the national average, but the gap has narrowed in recent years (Figure 1). In 2019, the rate was 62% in Tennessee vs. the national average of 63%. (3) (2) **Figure 2** displays the relationship between labor force participation, the state’s population, and employment figures.

Tennessee’s labor force participation rate peaked in 1995 at 67% and reached a low point of 59% in 2014. In an unusual occurrence, labor force participation in Tennessee fell from 2011 to 2014 even as the unemployment rate also decreased. Since 2014, labor force participation in Tennessee has rebounded slightly but remains at historically low levels. (2)

Figure 2. Tennessee’s Labor Force Does Not Include All Adults

Tennessee Employment Statistics (2019)



Source: U.S. Bureau of Labor Statistics (5) and the U.S. Census Bureau (6)

Trade-Offs of Using Labor Force Participation to Measure Prosperity

Advantages of the Measure

The labor force participation rate offers several advantages for tracking and describing the labor market. (7) (8)

- **The labor force participation rate sheds light on people’s willingness to work at any given time.** It conveys information on the number of people working or seeking work, the availability of jobs, and people’s confidence in their ability to secure employment.

- **The rate provides a standardized way to track changes in the economy over time across geographic areas.** Data are collected and reported every month at the national, state, and county levels.

Limitations of the Measure

The labor force participation rate also has some characteristics that prevent it from offering a comprehensive picture of Tennessee's workforce. (7)

- **The labor force participation rate only measures one dimension of the labor market: people who have or currently seek a job.** It does not account for other important aspects such as actual employment, hours worked, wages earned, or worker productivity.
- **Monthly labor force participation rates do not provide information about differences across demographic groups in an area.** Like all population-level metrics, topline figures can obscure disparities. However, annual data from the Census Bureau's American Community Survey provides a richer understanding of the labor force across different populations and demographics.
- **Labor force participation can fluctuate due to trends that are not necessarily tied to the health or distress of the broader economy.** For example, people attending school or raising children full-time contribute to the economy but are not considered part of the labor force. The rate also decreases as a population ages and more people retire. These demographic trends have important long-term implications for the economy, but they do not necessarily reflect current economic conditions.

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MEASURING PROSPERITY: GROSS DOMESTIC PRODUCT

What It Means, How Tennessee Is Doing, and the Trade-Offs

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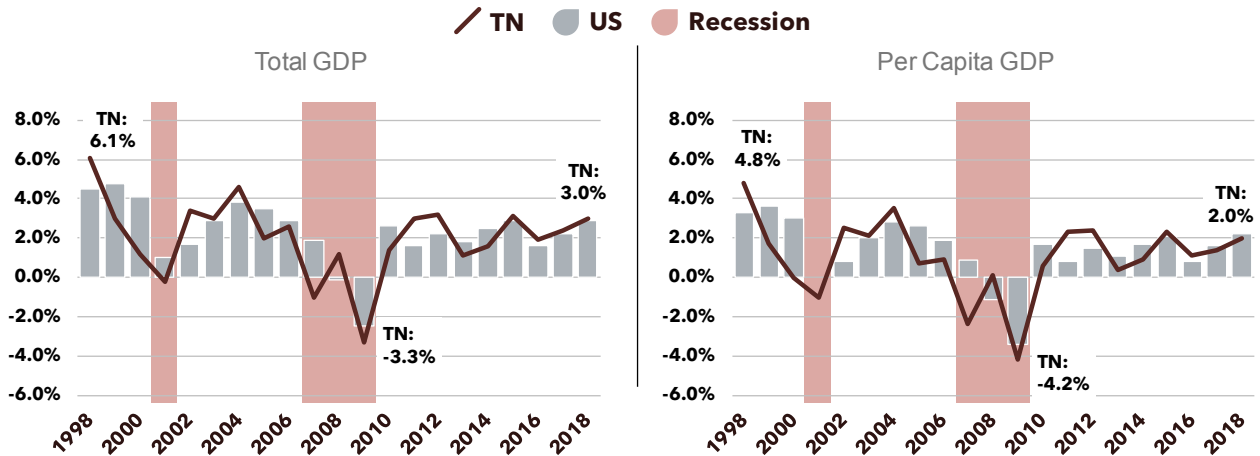
Gross domestic product (GDP) estimates the overall size of an economy. Although it has a variety of shortcomings, GDP is one of the most common metrics used to gauge how economic activity in Tennessee and the U.S. changes over time.

KEY TAKEAWAYS

- Gross domestic product estimates the total dollar value of all goods and services produced in an economy during a specific period.
- Tennessee’s GDP grew faster than most other states’ after the Great Recession but slower than during past recovery periods.
- GDP is calculated quarterly and provides a standardized way to track the overall size of an economy over time and across areas.
- While GDP provides valuable information about goods and services, it does not capture many important aspects of and contributions to economic well-being.

Figure 1. Tennessee’s Total GDP Grew Faster than Most Other States’ After the Great Recession

Annual Change in Inflation-Adjusted Gross Domestic Product (1988-2018)



Note: Data are based on real GDP in chained 2012 dollars.
 Source: Bureau of Economic Analysis (1)

What is GDP?

Gross domestic product estimates the total dollar value of all goods and services produced in an economy during a specific period. It includes spending by consumers, businesses, and government, as well as the net value of goods produced in Tennessee and exported to other states and countries (i.e. exports minus imports). Popular discourse often cites GDP as an indicator of broad economic well-being, but the metric has its limitations.

People use variations of GDP to describe, compare, and track economic changes in different ways. Total GDP and per capita GDP, which is adjusted for population size, are often used for comparisons between multiple states or countries. “Real” GDP is adjusted for inflation to allow apples-to-apples comparisons of how economic activity changes over time. Businesses and investors often consider GDP when determining how to allocate resources, and the Federal Reserve uses it to help guide monetary policy, such as setting interest rates. (2)

Tennessee’s Gross Domestic Product

Tennessee’s GDP grew faster than most other states’ after the Great Recession but slower than during the previous period of economic expansion (Figure 1). Measured in total GDP, Tennessee had the 19th largest economy in the U.S. in 2018 at \$365 billion. Our per capita GDP ranked 37th. (3) (4) Since the Great Recession officially ended in 2009, Tennessee’s real GDP has grown by an average of 2.3% per year – tied for the 11th fastest growth in the country and just above the national rate of 2.2%. (5) During the prior economic recovery between 2001 and 2006, however, real GDP growth in Tennessee averaged 3.1% annually. (5)

Trade-Offs of Using GDP to Measure Prosperity

Advantages of the Measure

Gross domestic product offers one main advantage for tracking and quantifying overall economic activity. (2) (6) (7)

- **GDP provides a standardized way to track the overall economy of an area over time and compare the economies of different regions.** The U.S. Bureau of Economic Analysis calculates GDP every quarter at the national, state, and metro area levels. Compared to other readily-available and routinely-reported metrics, GDP is a relatively robust way to measure economic activity. It provides information about economic growth, the sources of economic production, how different industries are faring, and the portion of growth that is due to inflation.

Limitations of the Measure

Gross domestic product also has several characteristics that prevent it from offering a comprehensive picture of economic activity and well-being. (2) (7) (8) (9) (10) (11) (12)

- **GDP does not count many activities that affect the size of the economy and economic well-being and security.** For example, productive activities like volunteering, childcare, cooking, cleaning, and household errands generally do not show up in GDP calculations unless the practitioner is paid. Even when these are paid labors, they may occur “off the books” in the shadow economy of both legal and illegal activities not reported to government authorities.

- **Economic well-being involves aspects that GDP does not attempt to quantify.** Health status, education, social connections, and economic stratification and mobility all affect the well-being of people and society. GDP also does not quantify the value or depletion of assets like natural resources and infrastructure, which limits the metric's ability to provide insights into longer-term economic security and sustainability.
- **GDP does not account for whether the circumstances around different types of spending or production are "good" or "bad" for overall well-being.** For example, spending associated with recovery from natural or environmental disasters increases GDP the same as building homes or exporting goods, yet GDP does not fall when a tornado or coal ash spill destroys a home.
- **GDP makes assumptions about the prices and value of goods and services that might not reflect the value consumers receive or changes in quality over time.** For example, technological advances may result in goods that are cheaper but deliver more value than in the past (e.g. phones, computers, and televisions).

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MEASURING PROSPERITY: PERSONAL AND HOUSEHOLD INCOME

What It Means, How Tennessee Is Doing, and the Trade-Offs

This is part of our series on the pros and cons of [five common ways to measure prosperity and economic growth in Tennessee](#).

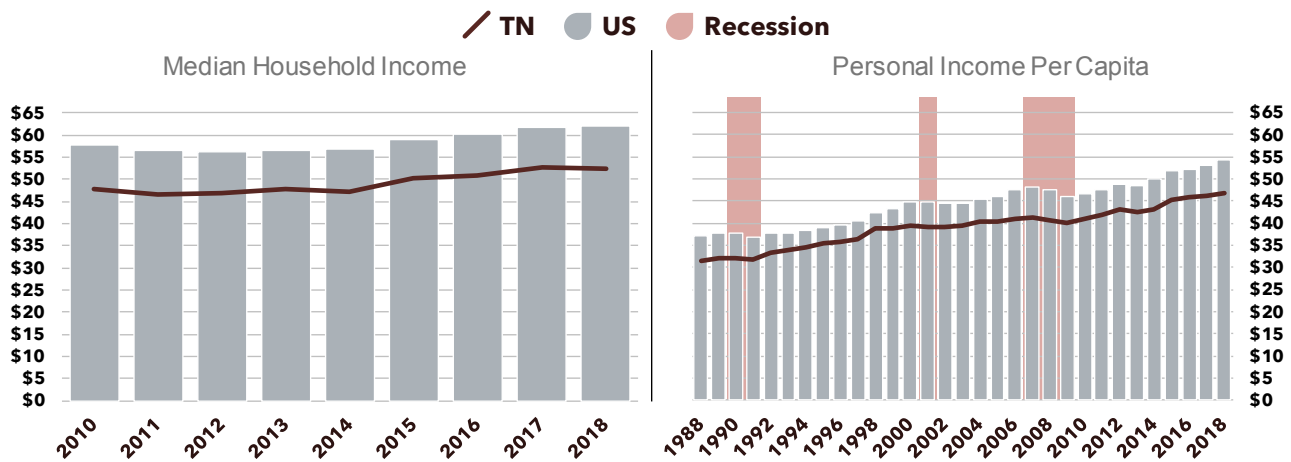
Personal and household income metrics tell us about the earnings of individuals and families. Income can be saved or used to buy goods and services, each of which affects the well-being of individual households and our economy as a whole. Two of the most common ways to measure the income of a population are median household income and per capita personal income.

KEY TAKEAWAYS

- Household income and personal income gauge the resources that Tennesseans have from wages and some (but not all) other sources of income.
- Measures of Tennesseans’ income reached historic highs in 2018 but remained below the national average.
- Both metrics provide important information about many of the financial resources available to most Tennessee families, but topline figures can obscure disparities between groups.
- Neither measure is a comprehensive assessment of economic well-being because they do not account for wealth or some types of earnings and public assistance.

Figure 1. Tennesseans’ Incomes Reached Historic Highs in 2018 but Remained Below National Averages

Inflation-Adjusted Income (in thousands)



Note: Data are in 2018 CPI-U-RS adjusted dollars
 Source: U.S. Census Bureau and Bureau of Economic Analysis (1) (2) (3)

What are Personal and Household Income?

Measurements of household and personal income gauge the resources that Tennesseans gain from various sources of income. Median household income and personal income per capita include wages and other sources of income like dividends and interest, pensions, rental income, and monetary public benefits (e.g. unemployment insurance or Social Security).

Household income measures all the income from individuals age 15 and older living together. A region's median household income is the amount at which half of all households in that area earn more and half earn less. Households are defined as a single address. Median household income can provide useful insight into the level and distribution of personal income within an economy.

Personal income per capita measures the combined income of every resident in a particular geographical area divided by the population. (4) This metric can provide useful insight into the level of resources available to private citizens within an economy.

Personal and Household Income in Tennessee

Median household income and personal income per capita are both at historic highs but remain lower than the national average (Figure 1). Each measure tells a different story about Tennessee's progress in narrowing that gap. Both measures have been adjusted for inflation, which takes into account price increases and allows for apples-to-apples comparisons of the value of money over time.

- Tennessee's [median household income](#) was \$52,375 in 2018 – 15% lower than the national figure of \$61,937. Both were at or near historic highs. Our state's median household income grew faster than average in recent years after adjusting for inflation – narrowing the state's gap between Tennessee and the country as a whole from a 17% deficit in 2010. Since 2010, Tennessee's median household income has grown by an average of 1.1% each year compared with 0.9% nationally. (1) (3)
- Tennessee's personal income per capita was \$46,900 in 2018 – 14% lower than the national figure of \$54,446. That gap between Tennessee and the U.S. overall has grown since the end of the Great Recession when it was 12%. Since 2009, Tennessee's personal income per capita has grown by an average of 1.7% each year compared with 1.9% nationally. (2) (3)

Trade-Offs of Using Income to Measure Prosperity

Advantages of the Measure

Income measures are useful for tracking and describing changes in the amount and distribution of earnings within an economy.

- **Personal and household income metrics provide important information about some of the financial resources available to Tennessee families.** The data for both are collected annually at different geographic (national, state, county) and demographic (age, sex, race/ethnicity, education) levels.
- **While topline figures can obscure disparities between groups, the underlying data provide a standardized way to compare progress over time and across areas, populations, and demographics.** Personal income per capita accounts for population size and is useful for comparing incomes across geographic areas. Median household income is a good barometer of income distribution and 'typical'

household income because (unlike a statistical average) it is not skewed by outliers – small numbers of households with extremely high or low incomes.

Limitations of the Measure

Income measures also have characteristics that prevent them from offering a comprehensive picture of the economic well-being of individuals, households, and communities. (5) (6) (4) (7)

- **Personal and household income measures exclude some types of earnings and public assistance and do not account for wealth.**
 - These metrics include cash benefits but not non-cash benefits like [food stamps](#), subsidized housing, health insurance, and tax credits. As a result, they may underestimate the resources available to low-income households.
 - They also exclude income from capital gains, which make up a larger share of total earnings for people with high incomes. As a result, they may underestimate the resources of high-income households.
 - Since they gauge only the inflow of resources and not existing resources like savings and assets, they may not account for the ways in which wealth affects longer-term economic security and [well-being](#).
 - Median household income data is usually self-reported through surveys, and people often underreport their income.
- **Various agencies count income differently, which makes it hard to compare income estimates from multiple sources.** For example, the Census Bureau, Internal Revenue Service, and the Bureau of Economic Analysis all count income in slightly different ways.
- **Median household income does not account for household size, so two households with equal incomes may not have the same economic status.** The average household size has also decreased over time, and most historical comparisons do not account for this change.
- **Personal income per capita may be skewed by outliers with extremely high or low incomes.**
- **Personal income per capita also has several unique limitations due to its reliance on population estimates.** For example:
 - Institutional populations (i.e. prisons, colleges, or nursing homes) are counted in population estimates but often have very little income. Areas with large institutional populations tend to have lower per capita personal incomes that do not reflect the economic well-being of local non-institutional residents. (4)
 - Children are also included in population estimates but generally do not have income. Areas with large families or younger populations may have lower per capita incomes but do not necessarily have worse economic well-being.

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MEASURING PROSPERITY: POVERTY

What It Means, How Tennessee Is Doing, and the Trade-Offs

This is part of our series on the pros and cons of [five common ways to measure prosperity and economic growth in Tennessee](#).

We measure poverty to gain insights into how many people do not have the economic resources to meet their basic needs. While the official poverty measure (OPM) is widely seen as outdated and imperfect, it remains more commonly used than existing alternatives. Other metrics, such as the supplemental poverty measure (SPM), usually include a broader set of economic resources but are not routinely reported in a way that allows for meaningful analysis at the state-level.

KEY TAKEAWAYS

- Poverty rates estimate the share of people with economic resources below certain thresholds for meeting basic needs. The official poverty measure is widely seen as flawed but is the most widely used.
- In Tennessee, the official poverty measure is above the national average while the supplemental poverty measure is below the national average. Both rates have trended downward in recent years.
- Poverty data offer standard metrics of how many people may find it hard to meet their needs across time periods, areas, and demographics. However, topline rates can obscure disparities among groups.
- The official poverty rate doesn't count some resources that may help a family meet basic needs and doesn't necessarily reflect those needs' current costs or how they vary across and within states.

What is the Poverty Rate?

The most widely used poverty rate is the official poverty measure. It estimates the share of people with incomes below a defined amount – known as the poverty threshold. The U.S. Census Bureau has 48 different poverty thresholds based on family size and the age of family members. The OPM defines income as cash income only, such as wages, certain government benefits (e.g. Social Security, Temporary Assistance for Needy Families), child support, pensions and 401(k)s, and interest. (1)

The dollar value of the official poverty threshold was first developed in the 1960s based on the U.S. Department of Agriculture's (USDA) estimates of the cost of an "economy food plan" and the share of income families spent on food. (2) If families' resources were less than three times the cost of USDA's estimate of the lowest-cost, minimally-adequate food budget, it was assumed their resources were inadequate to meet their basic needs. (3) The poverty threshold is updated annually for inflation (i.e. overall change in prices).

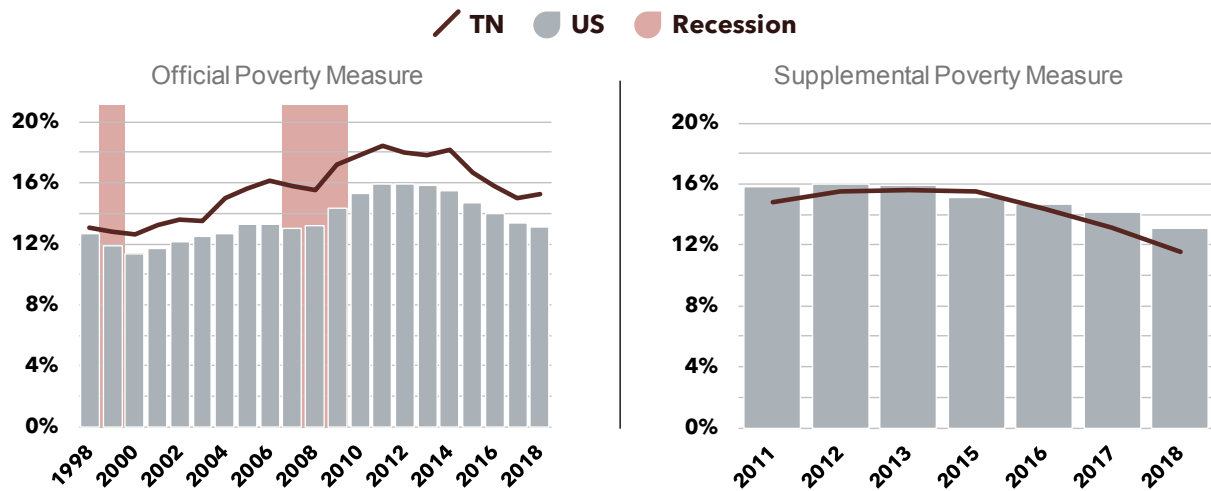
The supplemental poverty measure was first developed by the Census Bureau in 2011 to address some key concerns with the OPM (see Limitations of the Measures). It differs in a number of ways from the OPM (**Table 1**). (4) (5) For example, in addition to the sources of income outlined above, the SPM also counts non-cash benefits like the [Supplemental Nutrition Assistance Program](#) and tax benefits like the Earned Income Tax Credit.

Table 1. Alternatives for Measuring Poverty: Official v. Supplemental Poverty Measures

	Official Poverty Measure	Supplemental Poverty Measure
What determines the poverty threshold?	Three times the cost of the USDA's "economy food plan" in 1963, adjusted for inflation	Based on expenditure data for food, clothing, shelter, and utilities over the most recent 5 years
What counts as income?	Cash income before taxes	Cash income, the value of certain non-cash government benefits, and refundable tax credits minus taxes, medical spending, and work expenses
What is the measurement unit?	Families	All individuals who live at the same address
What kinds of adjustments are accounted for?	Varies based on family size, the number of adults and children, and the age of the family head	Varies by household size, the number of adults and children, and differences in housing costs by geographic area and owner v. renter

Sources: U.S. Census Bureau (4) and the Social Security Administration (5)

Figure 1. Tennessee's Poverty Rates Have Trended Downward in Recent Years



Notes: State-level supplemental poverty measure rates were not published for 2014. The supplemental poverty measure represents a 3-year average (e.g. 2018 represents an average over 2016-2018).

Source: U.S. Census Bureau (6) (7) (8)

Poverty in Tennessee

Tennessee's OPM is above the national average while its SPM is below the national average, but both rates have trended downward in recent years (Figure 1).

- According to the [official poverty measure](#), an estimated 15.3% of Tennesseans lived below the poverty level in 2018, higher than the national rate of 13.1%. This current rate is lower than the historic high of 18.4% in 2014 but up slightly from 2017, when it was at a 13-year low. (7)
- According to the supplemental poverty measure, an estimated 11.5% of Tennesseans lived below poverty over the course of 2016-2018, lower than the national rate of 13.1%. That rate is the lowest since the Census began reporting the measure in 2011. (8)

The difference in Tennessee's poverty rates under the two levels compared with the national rates likely reflects Tennesseans' relatively higher reliance on government programs and the state's relatively lower housing costs. (4)

Trade-Offs of Using Poverty to Measure Prosperity

Advantages of the Measures

There are several ways in which poverty rates are useful metrics for tracking and describing economic hardship. (9)

- **While topline numbers obscure disparities among groups, the data underlying the OPM offer a standard way to measure and compare progress across time, areas, populations, and demographics.** OPM data are reported on an annual basis and at different geographic (national, state, county) and demographic (age, sex, race/ethnicity, education) levels.
- **Poverty rates provide insight into how many people may face issues meeting their basic needs and the effectiveness of anti-poverty programs and interventions.** When the OPM was developed in the 1960s, there was very little official data on the ability of families' to meet basic needs. While both metrics have weaknesses, they do appear to illuminate major trends with relative accuracy, such as improvements in the economic well-being of the elderly over the last century.
- **The poverty rate provides a standardized tool to distribute federal dollars and determine eligibility for public assistance.** For example:
 - Poverty rates are often used to determine how federal dollars will be distributed to states and localities. Often times, states with higher poverty rates will receive more federal dollars for anti-poverty programs.
 - A simplified version of the poverty thresholds are used to define and determine eligibility for hundreds of billions of dollars in government programs – including [Medicaid \(known as TennCare in Tennessee\)](#), the [Supplemental Nutrition Assistance Program](#) (SNAP, often called food stamps), Head Start, and the National School Lunch Program, among others. (10)

Limitations of the Measures

Every method of calculating poverty has limitations that affect its ability to comprehensively indicate the level of economic hardship in Tennessee (2) (9) (11) (12):

- **The formula for calculating the OPM does not account for how the cost-of-living has changed since the 1960s or how it varies across the country.**
 - The underlying poverty thresholds were developed in the 1960s and have not been updated to reflect changes in household budgets. For example, families typically spend less today on food and more on other basic needs like child care and health care. As a result, some people and families may have incomes above the poverty threshold but are still unable to meet their basic needs.
 - The poverty rate does not consider geographic differences in the cost of living across states or between urban and rural areas. Tennessee has the same poverty threshold as California, which has a much higher cost of living.
- **Both measures exclude resources that may allow a family to meet basic needs.** Because of this, some individuals and families may have incomes below the poverty line but are still able to meet their needs.
 - The OPM only counts cash income and benefits but does not include non-cash forms of government assistance, like SNAP, Medicaid, and housing assistance. As a result, the OPM does not provide insights into the effectiveness of these types of public programs in reducing poverty.
 - The SPM accounts for some, but not all, non-cash forms of government assistance. For example, the SPM does not include the value of Medicaid.
 - Neither the OPM nor the SPM count other resources like assets (i.e. a home), savings, credit, ability to barter, or family support.
- **While the SPM addresses many of the OPM’s weaknesses, it is not routinely reported in a way that allows for meaningful analysis.** The Census annually reports overall state-level SPM estimates, but does not, for example, report state-level data across different demographic characteristics like age, sex, race/ethnicity, and education levels. This limits its usefulness for comparing progress over time across different populations and demographics.

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