DIVISION OF AGRICULTURE
RESEARCH & EXTENSION
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COVID-19 Impacts on Arkansas' Agricultural and Rural Economies

UPDATE: September Personal Income and Outlays Report

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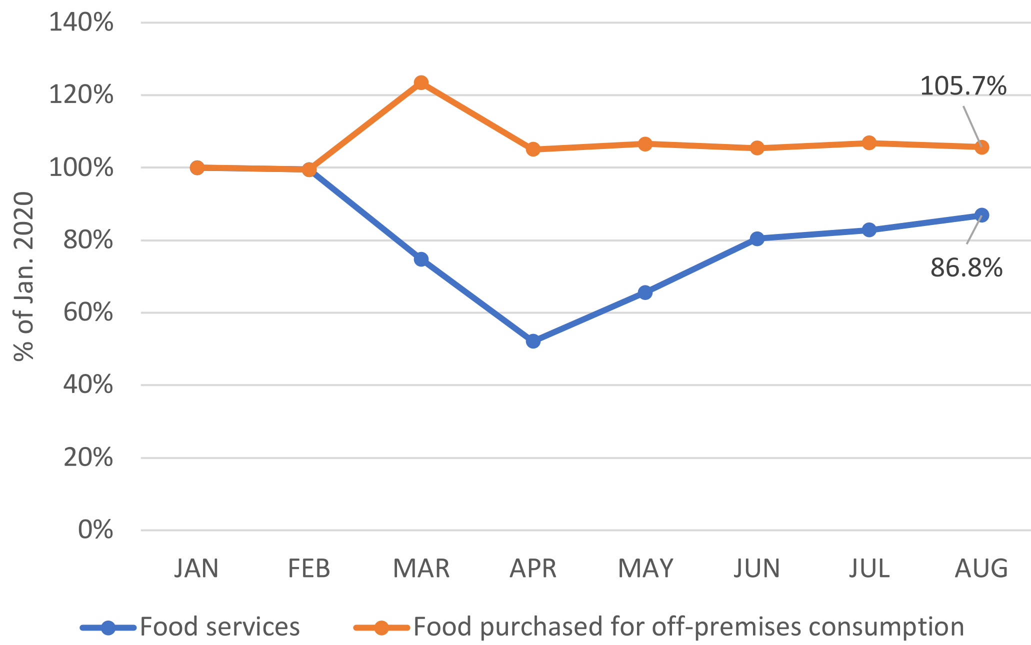
On October 1, the U.S. Department of Commerce Bureau of Economic Analysis (BEA) released its monthly update of personal income and expenditures through August. This was a highly-anticipated report, as it is the first look at consumer incomes and spending since the expiration of enhanced unemployment benefits at the end of July. In light of this fact, expectations were for a significant drop in personal income. The consensus pre-report estimate was for a decline in personal income of just under 2.5% from July to August. The actual figure came in just a bit worse than that: personal income declined by 2.7% (or $543.5 billion) from July to August.

The decline in personal income was more than accounted for by a decline in unemployment benefits. Unemployment insurance payments declined, in aggregate, by $687 billion in August. Other current transfers from the government, which accounts for most other ad hoc COVID assistance, was down by almost $57 billion. This decline in transfers was partially offset by increases in employee compensation ($136.4 billion), proprietors' income ($43.7 billion), rental income ($9.6 billion), and income on assets ($5.3 billion).

Wages and salaries increased for the fourth straight month in both goods-producing and service-producing industries. Since the beginning of re-opening in May, the pace of recovery in wages and salaries in goods-producing industries has progressively slowed. By contrast, wages and salaries in service-producing industries rose by more in August than in July, almost certainly reflecting a bit more robust recovery in travel and hospitality industries in the more recent month. Personal consumption expenditure data support this notion. Food services and accommodations spending increased by almost 7% from July to August; that's about double the pace of increase over the preceding month. Recreation services spending dipped just a bit overall from the prior month, but there were a couple of individual categories of spending in that broader class that are worth a mention. Spending at movie theaters increased by 239% in August over the prior month. Amusement parks and campgrounds marked a third consecutive month of 20% growth in spending; and museums and libraries posted a healthy 13% growth in spending. While spending in all of these categories remains far below pre-COVID levels, this surge in growth does offer some evidence that – either out of COVID fatigue or genuine gains in confidence – consumers are at least tentatively moving back toward more normal behavior.

Looking specifically at spending on food, consumer decisions are still being affected by COVID-related disruptions. Spending on food for at-home consumption, despite a 1% drop from July to August, remains almost 6% above pre-COVID (i.e., January 2020) levels. On the other hand, despite rising by almost 5% in August, spending on food away from home remains almost 13% below pre-COVID levels. Combined spending on food for at home consumption and food services is still about 3.5% lower than it was in January. That spending is skewed far more toward at-home consumption as well. In January, spending on food services amounted to about 96% of spending on food for at-home consumption ($715.5 billion vs. $745.6 billion). In August, that proportion was less than 80%. This data makes clear that the food service sector, while definitely recovering, continues to face significant challenges and remains a weak spot for demand for agricultural products.

Figure 1 shows how monthly spending on food and food services have been affected by COVID-related disruptions.



Data Source: U.S. Department of Commerce, Bureau of Economic Analysis

Figure 1. Monthly Personal Consumption Expenditure on Food for at home and Food Services as a Percent of January 2020

In aggregate terms, the decline in food service spending has been quite large. For example, August spending on meals at limited service restaurants (fast food) and other eating places (including fast/casual) was almost $60 billion lower than in January. The decline in food service spending is clearly a negative demand-side factor for meat, particularly for beef and chicken, which count on food service demand for a relatively high proportion of their product. Chicken would seem to be particularly vulnerable to this effect since so much of the chicken that goes to food service channels is relatively high-valued product: boneless/skinless breasts, breast tenders, wings. It is difficult to clearly quantify these effects, though, since we can't decompose food service spending into its component parts. Worth noting, though, the national broiler composite wholesale price as of the last week of September was almost 20% lower than a year ago – despite the fact that on the supply side of the market, weekly production has been running consistently below year-ago levels since before the middle of the year.