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**COVID-19 Impacts on Arkansas’ Agricultural and Rural Economies**

**UPDATE: Personal Consumption Expenditures on Food and the Latest Restaurant Performance Index**

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On the last day of April, the Bureau of Economic Analysis, or BEA, in the U.S. Department of Commerce released their [monthly update on personal income and outlays](https://www.bea.gov/news/2020/personal-income-and-outlays-march-2020). Data cover March 2020 and so only capture the beginning of the COVID-19 shutdown as businesses ceased or slowed down operations and many states issued stay-at-home orders. Subsequent reports will reveal more about the impacts of this event, but the preliminary data already reveal some striking facts.

Consumer spending changed in some fairly dramatic ways in March as the scale of the COVID-19 event became apparent. In March, Real Personal Consumption Expenditures, or PCE, dropped by 7.3% from the prior month. That is a shocking month-to-month decline in PCE. As a point of reference, in the 2008-2009 financial crisis, the largest monthly drop in PCE was just under 1 percent in September 2009. In fact, the 7.3 percent decline in PCE is the largest monthly decline since the beginning of this data series in 1959. Figure 1 shows the month-to-month percentage change in PCE from January 1980 through the most recent month. The monthly decline in PCE posted last month is basically without precedent in the post-war era.

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

**Figure 1.** Real Personal Consumption Expenditures: Percentage Change from Prior Month

Not all categories of spending were down, however. Spending on food was sharply higher in March: up over 19 percent compared to the prior month. A bit of explanation of that data is in order. The category ‘Food’ in the monthly PCE data includes only food purchased for consumption at home – basically, grocery and convenience store purchases of food. Meals purchased at restaurants are classified as ‘Food Services’ and are aggregated into a general ‘Services’ category in the monthly data. BEA does provide an annual breakdown of expenditures into narrower product categories. This more granular presentation of the data separates ‘Food at Home’ and ‘Food Away from Home,’ allowing a comparison of the two. That comparison is not available in the monthly data.

Figure 2 shows the month-to-month percentage change in the ‘Food’ product category of PCE from January 1999 through the most recent month.

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

Note: Food consists of food and beverages purchased for off-premises consumption; food services, which include purchased meals and beverages, are not classified as food.

**Figure 2.** Real Personal Consumption Expenditures on Food: Percentage Change from Prior Month

The choice of 1999 as the beginning point for this data series was not arbitrary. The only surge in PCE on food even remotely comparable to the most recent month was in December 1999, which – as readers of a certain age will recall – coincided with a wave of food stockpiling associated with the Y2K scare. In that month, PCE on food increased by 4.8 percent, month-to-month. Two differences between the COVID-19 shutdowns and the Y2K event are readily apparent. First, the Y2K event was anticipated many months in advance. Consumers had ample opportunity to gradually build up supplies of non-perishable food items over a longer period of time than was possible in the current round of panic buying. Second, and more significantly, food service did not shut down in December 1999. In the COVID-19 shutdown, consumers were essentially forced to shift almost the entirety of their food purchases to grocery retail. The surge in PCE for food illustrates how significant, and disruptive, that shift was.

As noted, the purchase of food away from home is embedded in the ‘Services’ category of the monthly PCE data. Obviously, other services were curtailed in the COVID-19 shutdown as well. Many service-providing businesses (e.g., hair salons) were closed outright in most jurisdictions of the country. Others (e.g., auto mechanics) stayed opened but almost certainly saw sharp declines in their activity as consumers stayed home, either by choice or as a result of stay-at-home orders. The upshot of all this is that spending on services fell sharply in March. As a broad category, PCE on services declined by 9.5 percent – as with the previous categories, the is the largest decline in the data series.

While we can’t yet tease out what happened specifically with restaurant spending, we do know that it fell sharply. The National Restaurant Association publishes a monthly Restaurant Performance Index (RPI) based on a survey of restaurants around the nation. The [RPI for March](https://restaurant.org/Downloads/PDFs/Research/index/RPI-March2020.pdf) was also released on April 30, and was – not surprisingly – disastrous. The RPI is an index assessing the current situation as well as near-term expectations as assessed by restaurant operators. A value of 100 is neutral; values above 100 connote industry expansion; values below 100 connote industry contraction. The RPI for March stood at 95: the lowest level on record and a sharp swing from February’s positive value of 101.9. For a point of reference, the RPI’s previous low point was in the midst of the last financial crisis in 2009, when it fell to around 96.5. Looking ahead, restaurant operators are not optimistic for a quick recovery. In the National Restaurant Association’s survey, almost three-quarters of respondents expected year-over-year sales to still be down six months from now.

Already, the COVID-19 shutdown has had an unprecedented impact on consumer spending: this, despite the fact that the event was not fully underway until well into the latter half of the month. April data will reflect a national economy that was largely on lockdown for the entire month and so will almost certainly show further significant declines in total PCE and spending on services. Spending on food will likely also fall sharply month-over-month as surge in panic buying had passed and aggressive shelter-in-place orders took hold in many markets. The April data will help to show the depth of the hole that has been dug but will reveal little, if anything, about prospects for recovery. That will have to wait until May and beyond.