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

**UPDATE:**

**Personal Income and Outlays for May**

**Livestock and Poultry Slaughter**

**Red Meat and Poultry in Cold Storage**

**Prepared by:**

**John Anderson**

**Department of Agricultural Economics and Agribusiness**

**June 26, 2020**

Last week was a big week for monthly economic reports. These reports continue to bring the nature and extent of the COVID-19 pandemic into clearer focus.

***Personal Income and Outlays for May***

On Friday, the Bureau of Economic Analysis (BEA) released their estimates of personal consumption and expenditures for May. This time period captures the beginning stages of reopening in many states. The headline number in the report may seem negative: personal income down 4.2% in May compared to the prior month. However, that figure is not as negative as it might seem. In April, personal income had been buoyed by the unprecedented flow of emergency relief funds, primarily in the form of direct payments to all taxpayers and enhanced benefits to unemployed workers. Personal income declined in may primarily due to a slowdown in government transfers. At roughly $5.2 billion, government social benefits to persons remain historically large but were a little over $1 billion less than in the prior month. Compensation of employees was actually higher in May than in April -- $10.8 billion versus $10.5 billion – but not by enough to offset to slowing pace of government relief payments.

Real (i.e., inflation adjusted) disposable personal income provides a relevant assessment of consumer income considering all income sources. For May, real disposable personal income declined by 5% from April but remained at a historically higher value, as shown in figure 1.

Data Source: Bureau of Economic Analysis through St. Louis Federal Reserve Bank FRED Database.

**Figure 1.** Real Disposable Personal Income: Monthly, billions of chained 2012 dollars

Personal consumption expenditures (PCE) rose substantially – by 8.2% – in May compared to the prior month as states began to lift stay-at-home orders. Expenditures were up across all major categories of spending: durable goods, non-durable goods, and services. It is clear that quite a bit of pent-up demand developed in several product categories over the course of the shutdown. For example, real PCE on clothing/footwear increased by 43% in May compared to April. Spending on recreation increased 15%. This is not to say the spending has recovered: aggregate expenditures in these categories (and pretty much all others) remains well below pre-COVID levels. But spending did bounce back considerably in May compared to the historically low lockdown-induced levels of April.

Spending on both food at home and food away from home increased in May compared to April. Food-at-home spending was still considerably lower than during the March stockpiling phase of the pandemic, but it remained high relative to normal – perhaps because food was one of the few things that those under stay-at-home orders could go out and routinely purchase. Food service spending in May increased by well over 20% from April as restaurant trade began to resume in much of the country. Again, while the percentage change from April is impressive, aggregate spending levels on food away from home remain well below pre-COVID levels. Figure 2 shows the month-to-month percentage change in spending on food away from home and at food service for the past three years. Clearly, the past three months represent an unprecedented disruption in both sectors.

Data Source: Bureau of Economic Analysis.

**Figure 2.** Real Personal Consumption Expenditures on Food: Month-to-Month Percentage Change

With disposable income down and PCE up, the savings rate retreated some from April’s record shattering level. Still, the saving rate topped 23% in May – about three times the normal saving rate. As noted last month, these high savings rates suggest that the financial fuel for economic recovery is in place once consumer confidence returns.

***Livestock and Poultry Slaughter***

Last week, USDA National Agricultural Statistics Service released their monthly *Poultry Slaughter* and *Livestock Slaughter* reports, updating production data through the end of May.

In May, chicken slaughter held up much better than might have been expected, given the disruptions in processing operations that received so much attention at that time. According to the *Poultry Slaughter* report, young chicken slaughter was down 9% compared to last May and 3% compared to April; however, most of that decline is actually due to the fact that May 2020 had two fewer slaughter days than May 2019 and one fewer than last month.

With respect to cattle and hogs, both were down markedly from a year ago, even accounting for the fewer slaughter days: May 2020 cattle slaughter was 23% lower than May 2019, and May 2020 hog slaughter was 17% lower than May 2019. On a month-to-month basis, though, cattle slaughter in May actually represented a slight increase from April while hog slaughter remained lower in May compared to the prior month. In other words, cattle slaughter fell more sharply than hog slaughter but stabilized more quickly. This is evident if figure 3.

1. Cattle Slaughter
2. Hog Slaughter

Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center.

**Figure 3 A-B.** Monthly Federally Inspected Hog and Cattle Slaughter

Looking ahead, weekly slaughter data suggest that by the time June is wrapped up, cattle and hog slaughter will likely both be within five percent or less of the prior year.

***Red Meat and Poultry in Cold Storage***

Last week, USDA also released their monthly *Cold Storage* report. The disruption in hog slaughter discussed previously, coupled with strong demand (including exports) for pork, has led to a sharp drawing down in pork stocks. Stocks of frozen pork in cold storage declined by 24% from April and are 26% lower than a year ago. At 467 million pounds, frozen pork supplies are the lowest since August 2011.

While stocks of frozen beef and chicken also declined in May, those declines were much more modest than for pork. In fact, frozen stocks of both beef and chicken remain above 2019 levels despite the decline from April to May. Figure 4 shows monthly frozen stocks of pork, beef, and chicken for the past three years.

1. Chicken
2. Beef
3. Pork

Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center.

**Figure 4 A-C.** Monthly Frozen Stocks of Pork, Beef, and Chicken in Cold Storage

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