COVID-19 Impacts on Arkansas' Agricultural and Rural Economies

UPDATE:
August Personal Income and Outlays Report

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On August 28, the U.S. Department of Commerce Bureau of Economic Analysis (BEA) released the monthly Personal Income and Outlays report, updating household income and expenditure data through July. The report provides a comprehensive look at sources of income as well as major expenditure items for households and thus provides interesting insights into how COVID-19 continues to affect the economy.

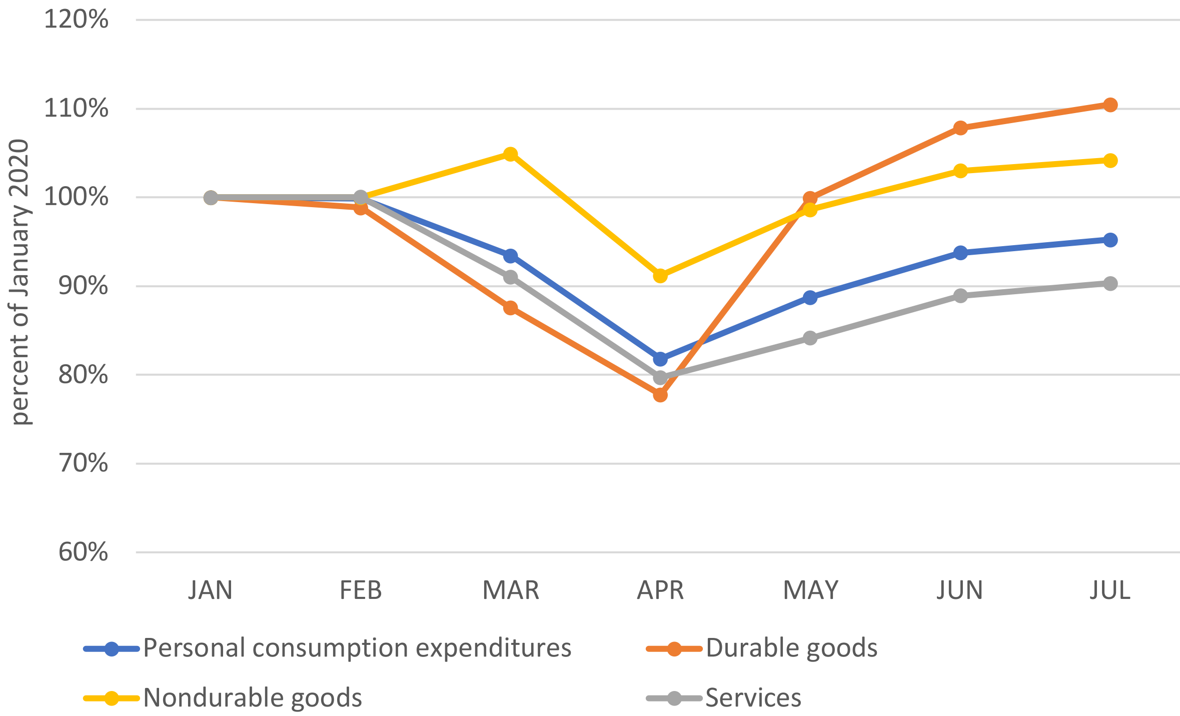
The headline from the report was that personal income increased by 0.4 percent in July compared to the prior month. Most pre-report estimates were calling for a slight decline, so the report was a generally positive surprise for the market. Adding to the positive tone, the increase in personal income was entirely accounted for by an increase in worker compensation as opposed to government transfers. Wages and salaries, proprietors' income, and rental income were all higher in July compared to June. Despite the growth in July – which marked three consecutive months of growth -- wages and salaries and proprietors' income remain below pre-COVID levels. Total personal income is well above its pre-COVID level because government social benefits remain historically quite high. These transfer payments did decline in July compared to June, primarily the result of a decline in unemployment benefits, but they remain far above pre-COVID levels. For example, in January, government social benefits totaled $3,158 billion. In July, government social benefits amounted to $4,867 billion, an increase of 54 percent, due mostly to enhanced unemployment benefits.

Personal consumption expenditures (PCE) also continued to increase in July – as with income, the third consecutive month of increase. At 1.6 percent, the month-to-month increase in PCE in July was considerably smaller than the 8.4 percent and 5.7 percent increases in May and June, respectively. With personal income rising by 0.4 percent and PCE rising by 1.5 percent, the personal savings rate declined in July for the third month in a row. Still, at 17.8 percent, the personal saving rate (i.e., personal saving as a percent of disposable personal income) remains historically very high – more than double the average rate in 2019.

PCE data are broken down by type of product in BEA's monthly report. This data shows the rather unique manner in which COVID-19 and related shutdowns have affected consumer behavior. Figure 1 shows total PCE along with expenditures on durable goods, non-durable goods, and services for each month of 2020 as a percent of the January 2020 level. This reveals how the COVID-19 event affected total spending as well as each of these major spending categories.

This chart reveals several interesting points. While PCE has recovered substantially from the depths of the COVID shutdown in April, consumer spending remains below its pre-COVID level. This continued lag in spending is due entirely to continued weakness in spending on services. Spending on both durable and non-durable goods is now well above pre-COVID levels.

The relationship between spending on durable and non-durable goods is itself an interesting phenomenon. In March and April, spending on durable goods fell much more sharply than spending on non-durable goods. This is not surprising, as this is generally what should be expected in any recession: consumers continue to spend, with relatively minor adjustments, on necessities like food (non-durable) while delaying spending on bigger ticket and discretionary items like cars, furniture, appliances (durable). In the COVID rebound, though, spending on durables has soared. What is notable is that this strong consumer spending on durable goods – exceeding pre-COVID spending by around 10 percent -- is happening during what must be assumed to be an on-going COVID recession. This suggests that the bump in personal income from increased social benefits has gone, in larger measure than might have been expected, to the purchase of durable goods; perhaps because so many services that might otherwise have attracted some of those dollars have been curtailed (more on that below).



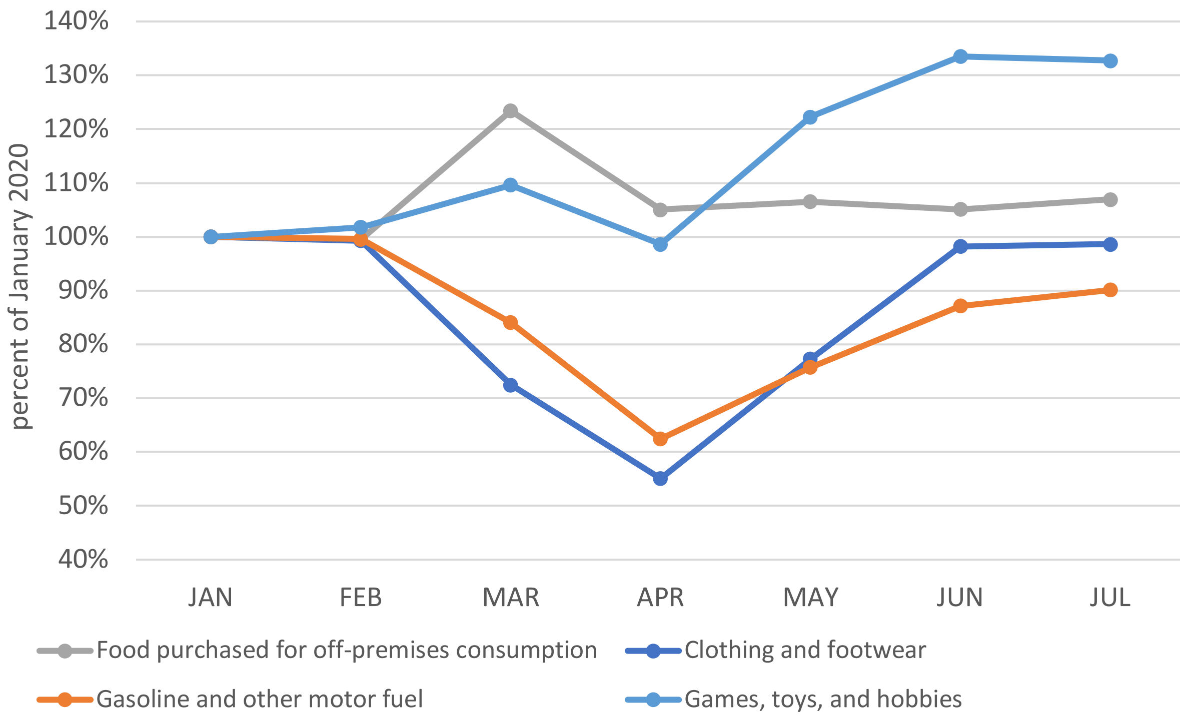
Source Data: U.S. Department of Commerce, Bureau of Economic Analysis

Figure 1. Monthly Personal Consumption Expenditures (total and by major category) as a Percent of January 2020 Levels

With respect to durable goods, PCE appears to be up compared to January basically across the board. Spending on motor vehicles and parts in July was 8 percent higher than January; furniture and household equipment, also 8 percent higher; jewelry and watches, 10 percent higher. Interestingly, among the major categories of durable goods, the biggest increase in expenditures from January to July has been in recreational goods and vehicles: spending in this category is up more than 20 percent from January to July. Spending on big-ticket items that we would normally expect to struggle in a recessionary environment has grown markedly over the course of the year (more specifically, since April). For example, expenditures on pleasure boats were 36 percent higher in July than in January. In contrast, over the course of the last major recession (the Great Recession in 2007-2010) spending in that category fell by about half.

With respect to non-durable goods and services, consumer spending during the pandemic has been more of a mixed bag. Figure 2 shows monthly personal consumption expenditures for each month as a percent of January 2020 expenditures for a selected set of non-durable good sub-categories. Spending on food for at-home consumption remains modestly above the pre-COVID level – not surprising given that food-service limitations are almost certainly still shifting some food demand to the at-home category. Also not surprisingly, spending on games/toys/hobbies is sharply higher than the pre-COVID level. With recreational options limited, demand in this category has soared.

On the other hand, spending on clothing and shoes is up from the sharp decline in March and April but is still not quite even with pre-COVID levels. Spending on gasoline remains about 10 percent below January, reflecting the COVID-induced reduction in travel resulting from reduced commuting and travel for recreation/leisure purposes.

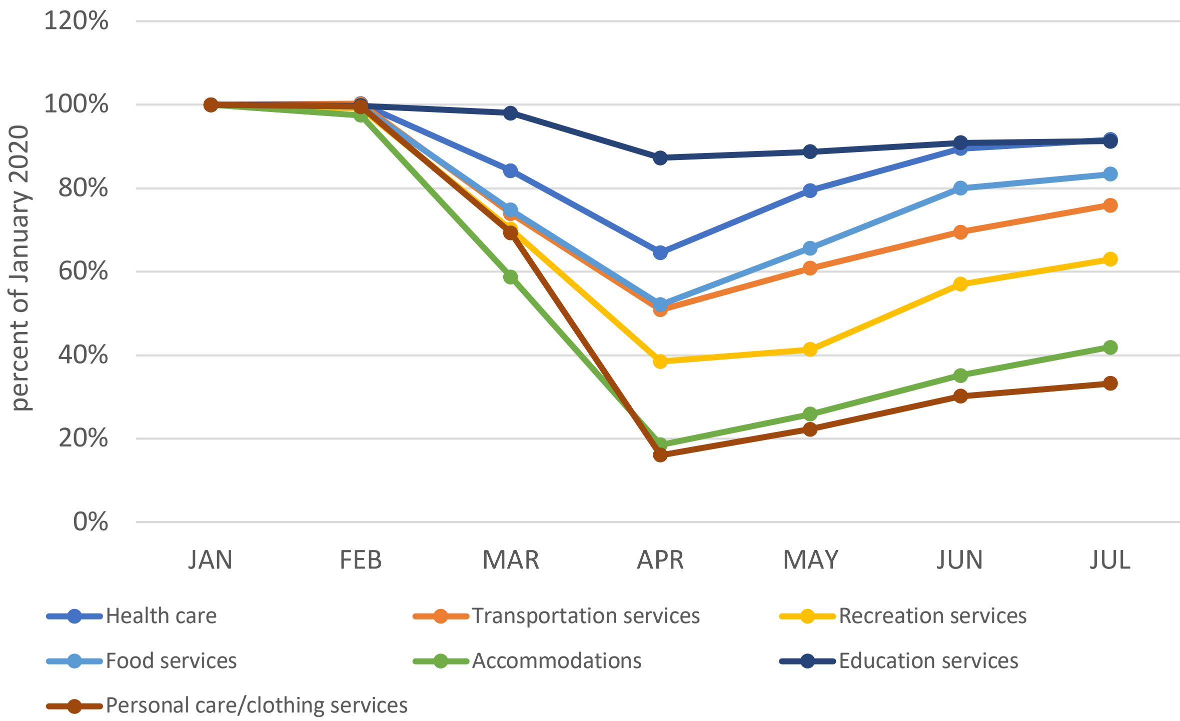


Source Data: U.S. Department of Commerce, Bureau of Economic Analysis

Figure 2. Monthly Personal Consumption Expenditures for Select Non-Durable Goods as a Percent of January 2020 Levels

Finally, with respect to services, declines in personal consumption expenditures have virtually been across-the-board. Figure 3 shows the monthly data on expenditures for several categories of Services spending reported by BEA. All remain lower in July than their pre-COVID levels. In some cases, the decline has been modest. For example, spending on educational services is down less than 10 percent. Even these aggregations mask some major shifts. For example, spending on Day Care and Nursery Schools – a category in Educational Services – in July was only a bit over 40 percent of January's level (noting that BEA data are adjusted to account for normal seasonality in spending). Of course, spending on services related to travel and leisure has basically fallen apart in 2020. Likewise, personal care/clothing services (e.g., hair salons, dry cleaners) have seen spending all but dry up, with only a modest rebound from the April minimum.

In fact, there are some categories of spending tracked by BEA that look worse than those illustrated in Figure 3. Spending in movie theaters, for example, sits at about 2 percent of its January level. In recreational services, about the only thing that has seen an increase in spending is streaming services: up 7 percent for video and 6 percent for audio. Similarly, postal and delivery services have seen their business increase, with July spending almost 10 percent higher than in January.



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

Figure 3. Monthly Personal Consumption Expenditures for Select Services as a Percent of January 2020 Levels

In summary, the COVID pandemic continues to exert a strong influence on consumers in terms of their incomes, their spending, and their saving. Income remain well above pre-COVID levels, largely due to continuing high transfer payments, though wages and salaries and proprietors' income has been climbing since May. Looking ahead, as transfer payments continue to diminish with the expiration of support programs, income from other sources will need to continue to grow to maintain pre-COVID personal income levels. This, of course, will require continued recovery in employment.

In terms of spending, the COVID recession has been somewhat unusual. Spending on durable goods has been quite strong, considering that we are currently in a rather sharp recession. Spending related to travel and leisure remain severely curtailed. Until consumers regain the confidence to resume social exposure – at work and in recreational settings – and until social distancing guidelines allow such a resumption, spending in these categories will continue to lag.