DIVISION OF AGRICULTURE
RESEARCH & EXTENSION
University of Arkansas System

COVID-19 Impacts on Arkansas' Agricultural and Rural Economies

UPDATE:
February *Personal Income and Outlays* Report

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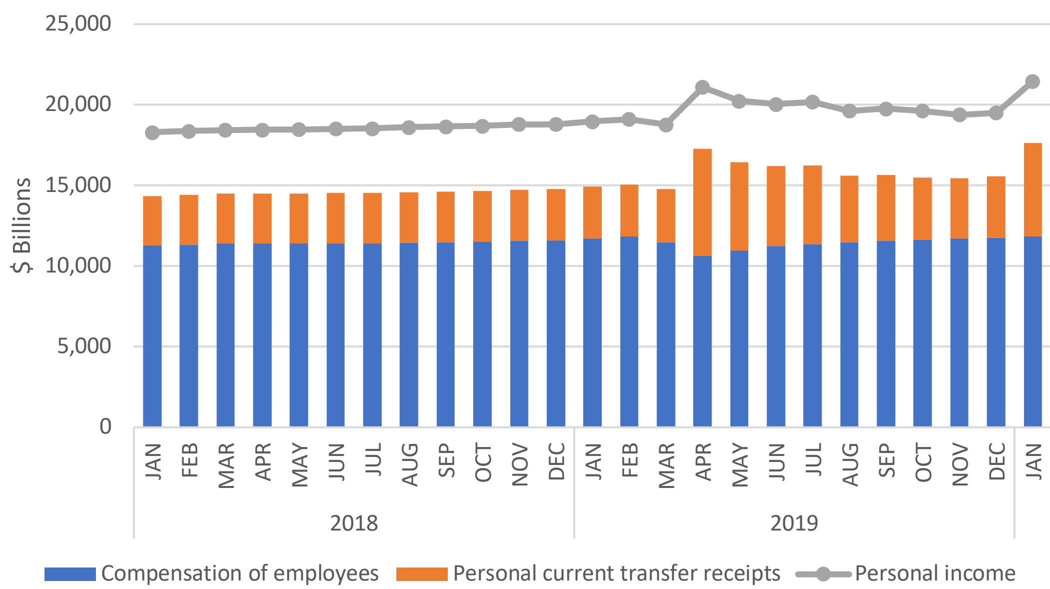
Last Friday, the Bureau of Economic Analysis released the Personal Income and Outlays report, updating monthly personal income and spending data through January 2021. The report showed the significant effect of the latest COVID relief bill on consumer incomes.

Compared to the prior month, personal income increased by 10% in January 2021. This is quite a large change from one month to another, and it primarily reflects the impact of relief payments to households authorized under the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, which went into effect on December 27, 2020. Government social benefits increased by over 50% in January compared to the prior month, with most of that increase accounted for by the economic impact payments authorized by the CRRSA. Recall that this was the second round of such payments, following the first round authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act in late-March of last year. Payments under the original CARES Act were a bit larger than this most recent round: last April, personal income rose by 12% from the prior month, despite rather sharp declines in other components of income. Figure 1 shows monthly personal income, including two of its major components: employee compensation and current transfers. The impact of transfers in January on total personal income is evident in this figure.

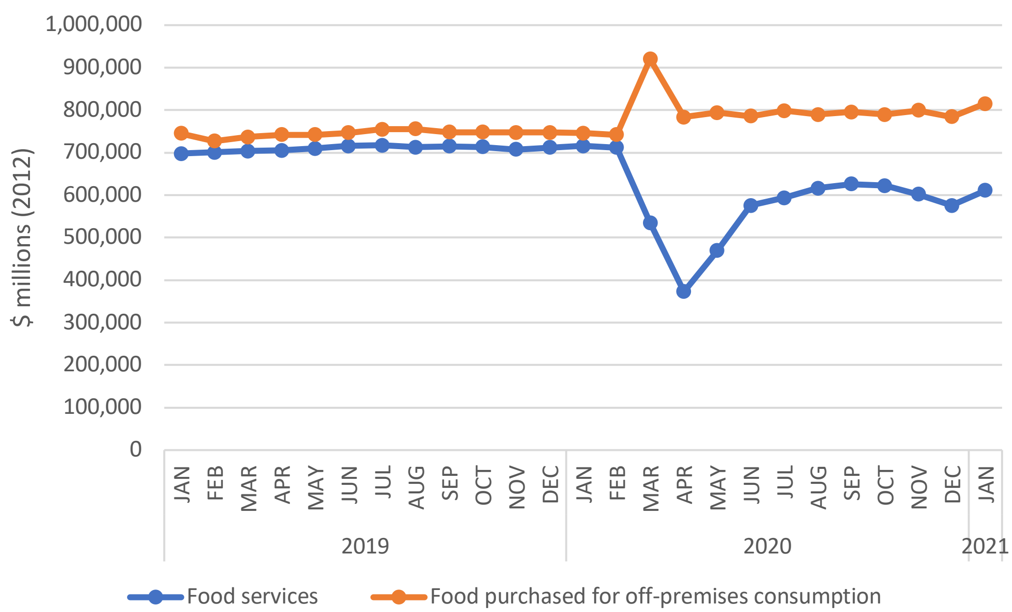


Source: Department of Commerce, Bureau of Economic Analysis
Notes: Monthly data are seasonally adjusted at annual rates.

Figure 1. Personal Income: Employee Compensation, Current Transfers, and Total

In January, several other components of personal income were also up, albeit modestly, along with government transfers. Wage and salary income increased by about 0.7%; and rental income was up by a bit more than 1%. Proprietor's income, on the other, hand fell slightly – with the decline attributable to farm businesses. Here, again, the impact of COVID policy is evident. Farm proprietor's income fell by a bit over 20% in January compared to the prior month. This drop corresponds to the winding down of the Coronavirus Food Assistance Program 2 (CFAP2). Sign-up for that program, which had started making significant payments in October, ended in mid-December. According to USDA figures, that program has paid out about $13.3 billion to farmers of a variety of products including commercial row crops, specialty crops, livestock, and poultry. Payments under CFAP2 to Arkansas farmers has totaled $181 million.[1]

The rather sharp increase in personal income in January was accompanied by modest growth in personal consumption expenditures, which increased by just over 2% compared to the prior month. Spending was up across all major categories. Spending on food remains significantly altered by the pandemic. Spending on food services – that is, food away from home – was up in January after a couple of months of slight decline; however, it remains well below pre-pandemic levels. Not surprisingly, then, spending on food for at-home consumption remains well above pre-pandemic levels. Continuing restrictions on seating capacity in some locations along with risk-avoidance behavior by many consumers appear to still be having a significant effect on consumer spending patterns when it comes to food purchases. It will be interesting to see how food service spending develops as COVID vaccination increases over the next couple of months. The gap between at-home and away-from-home spending on food – which has persisted since the start of the pandemic and has been relatively consistent since about mid-summer – should begin to close as consumers gain the confidence to resume normal patterns of behavior.



Source: Department of Commerce, Bureau of Economic Analysis
Notes: Inflation adjusted expenditures, 2012 base. Monthly data are seasonally adjusted at annual rates.

Figure 2. Real Personal Consumption Expenditures on Food: Food Services and Food for at-Home Consumption

With sharply higher incomes and only modestly higher consumer spending, the savings rate for January was up considerably from the prior month. This pattern has been consistent throughout the pandemic, with support payments largely being banked by recipients. Pre-pandemic, the personal savings rate averaged between 7% and 8%. During the pandemic, the savings rate has

[1] USDA data summarizing CFAP2 payments is available at https://www.farmers.gov/cfap/data.

been as high as 33.7% (in April, when the first CARES Act payments went out) to as low as 12.5% in November. In January, with CRRSA payments hitting consumers' accounts, the savings rate jumped back up to 20.5%. As with spending on food, the savings rate will provide something of a barometer of consumer sentiment: as consumers begin to resume normal activity, the savings rate should fall back toward pre-pandemic levels.