



Impact of Covid-19 on the Arkansas Economic Outlook

By [Michael Pakko](#), March 23, 2020 2:54 PM

As the impact of the novel coronavirus disease 2019 (COVID-19) works its way through the economy, national economic forecasts are showing an increasingly grim outlook. In addition to disruption of world supply chains, the decline in consumer spending associated with “social distancing” is generating forecasts with significant declines in aggregate demand that make a recession appear inevitable.

On Friday, March 20, IHS Markit released their latest forecast for the U.S. economy, projecting a second-quarter decline in GDP of 12.6% (annual rate), with a rebound not coming until the fourth quarter of the year. The IHS forecast suggests decline in payroll employment of 9.9 million (-5.6%) by the fourth quarter, with the unemployment rate peaking at 8.8%. Personal income and spending are expected to decline in the second and third quarters, with losses totaling 2.4% and 4.2%, respectively.

The IHS Markit Forecast for the U.S. assumed that “recovery from the looming economic contraction begins in August, by which time we expect the rate of new cases of coronavirus disease 2019 (COVID-19) to be dwindling and quarantines, official and self-imposed, to be lifting. It is not until the fourth quarter that a firm rebound takes hold.” Labor markets are expected to take somewhat longer to bounce back.

IHS forecasters have not yet released updated state-level forecasts, but by applying the new assumptions for the national model to the Arkansas model, we can estimate the magnitude of the Covid-19 impact on our state’s economy. To a large extent, the forecast for Arkansas reflects a direct application of changes in national aggregates to state-level variables. However, we’ve taken care to apply forecast adjustments on a disaggregated basis in order to account for unique characteristics of the Arkansas economy. For example, because a relatively large share

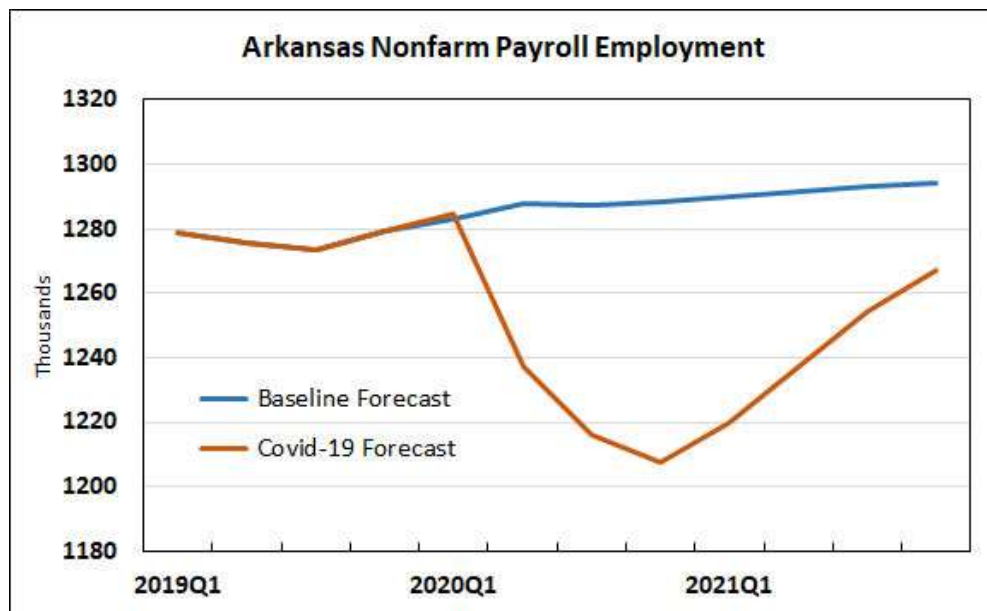
of Arkansas workforce is engaged in goods-producing employment, some declines in service-sector employment have a smaller impact on total employment in Arkansas than at the national level.

In the following sections, we present post Covid-19 forecasts against a Baseline that represent projections from the IHS Markit model for Arkansas, published March 16, with adjustments for benchmark revisions to employment that were subsequently announced. The Covid-19 adjustment factors are calculated by comparing the IHS U.S. forecast from March 20 to the previously-published March baseline.

Employment

The impact of “social distancing” on employment is concentrated in service-providing sectors. For example, from the first quarter through the fourth quarter, employment in the Retail Trade sector is expected to decline 16%. Employment in Arts, Entertainment and Recreation is expected to fall 20%. In contrast, jobs in Health Care and Social Assistance are expected to increase by 2%. Overall, the decline in payroll employment is expected to total more than 77,000, a drop of 6.0%.

Figure 1:



Sources: IHS Markit, Arkansas Economic Development Institute

Table 1:

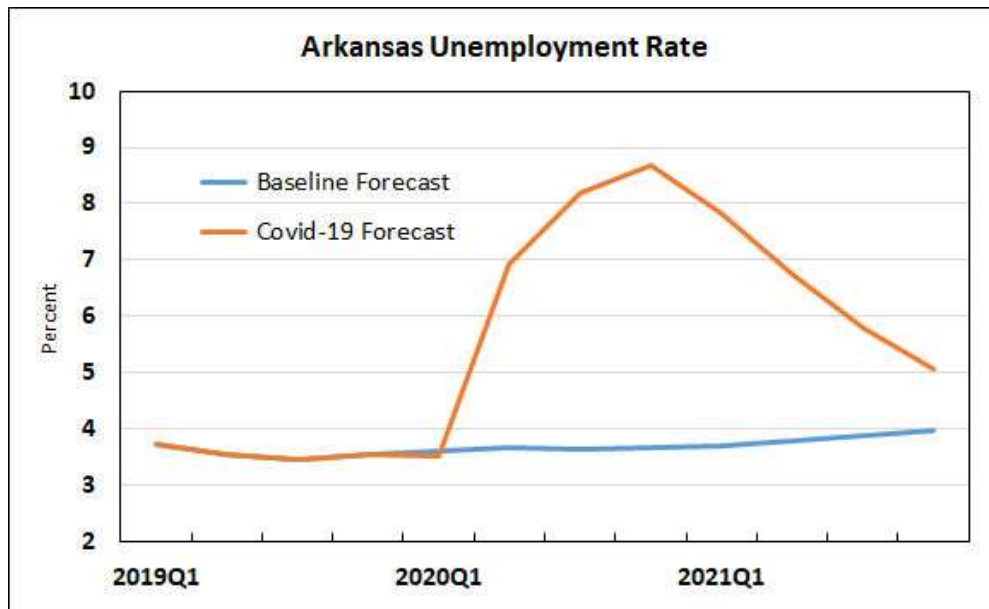
	Change from 2020:Q1 -2020:Q4			
	Baseline Forecast		Covid-19 Forecast	
	Thousands	Percent	Thousands	Percent
Total Nonfarm	5.1	0.4	-77.2	-6.0
Mining & Logging	-0.2	-3.1	-1.0	-17.5
Construction	0.4	0.7	-1.9	-3.6
Manufacturing - Durable Goods	-0.6	-0.8	-7.0	-9.1
Manufacturing - Nondurable Goods	-0.6	-0.7	-3.0	-3.5
Wholesale Trade	0.3	0.7	-2.0	-4.2
Retail Trade	-0.4	-0.3	-21.9	-16.1
Transportation & Utilities	0.4	0.6	-4.1	-6.0
Information	0.1	0.6	-0.1	-0.7
Finance & Insurance	0.4	0.9	-2.1	-4.3
Real Estate & Rental & Leasing	0.0	-0.2	-0.8	-5.7
Prof, Scientific, & Technical	-0.1	-0.1	-3.2	-7.0
Mgmt of Companies & Enterprises	0.1	0.3	-2.6	-7.5
Admin & Support & Waste & Remediation	2.1	3.2	-15.5	-23.1
Education Services	-0.1	-0.9	-0.9	-5.6
Health Care and Social Asst.	2.2	1.2	3.6	2.0
Arts, Entert., & Recreation	-0.3	-2.6	-2.4	-20.0
Accom. & Food Services	0.2	0.2	-12.8	-11.8
Other Services	0.3	0.4	-0.5	-0.9
Federal Government	-0.4	-2.1	-0.4	-1.8
State and Local Government	1.3	0.7	1.4	0.7

Sources: IHS Markit, Arkansas Economic Development Institute

Unemployment

The declines in payroll employment will be mirrored in the household measure of employment, with the number employed falling by more than 83 thousand by the fourth quarter, with the number unemployed rising by nearly 70 thousand to total 117.5 thousand. With these developments, the unemployment rate is forecast to peak at 8.7%.

Figure 2:

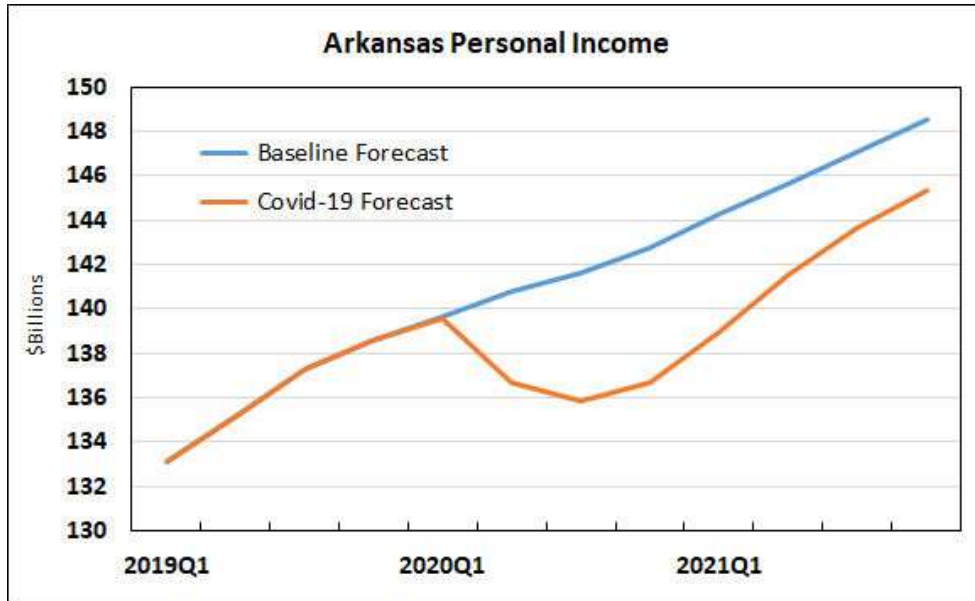


Sources: IHS Markit, Arkansas Economic Development Institute

Personal Income

Personal income is forecast to be reduced by job losses and business closings, but declines are expected to be mitigated somewhat by increases in transfer payments. From the first quarter of 2020 through the third quarter, personal income is projected to decline by 2.3% before starting to recover in the fourth quarter.

Figure 3:

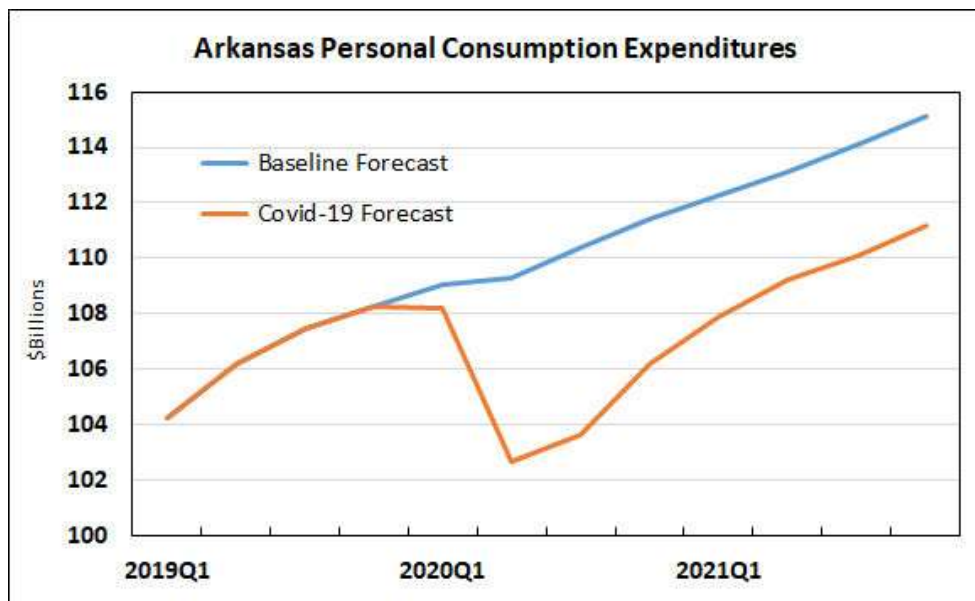


Sources: IHS Markit, Arkansas Economic Development Institute

Consumption

Social distancing practices are having a direct effect on consumer spending in the first and second quarters of 2020, with lingering effects due to the impact of declining employment and income later in the year and beyond. Total consumer spending is expected to decline by 5.1% in the second quarter of 2020. While spending begins to recover in the second half of the year, total consumer spending is expected to remain far below the baseline forecast through the end of 2021.

Figure 4:



Sources: IHS Markit, Arkansas Economic Development Institute

Overall spending is also impacted by recent sharp declines in energy prices, with a 51% decline forecast for spending in that category. Note that spending on Food & Beverages for Off-Premises Consumption is expected to increase 13%, as households substitute food prepared at home for restaurant meals.

Table 2:

Arkansas - Personal Consumption Expenditures	
Category	Percent Change, 2019Q4 - 2020Q2
Total	-5.1
Goods	-4.8
Goods-Durable	-10.0
Motor Vehicles & Parts	-15.6
Furnishings & Durable Household Equipment	-9.0
Recreational Goods & Vehicles	-7.1
Other Durable Goods	-3.3
Goods-Nondurable	-2.4
Food & Beverages Purchased for Off-Premises Consumption	13.0
Clothing and Footwear	-10.0
Gasoline & Other Energy	-51.1
Other Nondurable Goods	1.1
Services	-5.2
Housing & Utilities	2.1
Health Care	2.1
Transportation	-10.3
Recreation	-16.9
Food Services & Accommodations	-12.6
Financial & Insurance	-9.8
Other Services	-16.9

Sources: IHS Markit, Arkansas Economic Development Institute



Summary and Outlook

There is a great deal of uncertainty associated with any forecast of the current, unprecedented situation. Risks to the forecast are more likely to be on the down-side: The presumed scenario where economic recovery begins by the end of 2020 might prove to be overly optimistic. The declines in consumer spending and income may reinforce one another to create an even more dramatic downturn.

The outlook will undoubtedly change as the situation develops, particularly when it comes to the impact of fiscal and monetary policy responses. At the present time, however, it appears that a dramatic downturn in economic activity over the remainder of 2020 is unavoidable for the nation and for Arkansas.