



Arkansas Consumer Spending During the Pandemic

by Michael Pakko | Aug 6, 2020

Evidence continues to accumulate showing that Arkansas' economy has not been as hard-hit by the COVID-19 pandemic as other parts of the nation. Most of the information to-date has been related to employment. It is clear that declines in payroll employment and spikes in unemployment have not been nearly as large in Arkansas as in the national data. But it appears that one area of the economy has demonstrated an even greater gravity-defying performance: consumer spending.

The latest state revenue report added an underline to the emerging evidence: The Department of Finance and Administration (DF&A) reported on Tuesday that July revenue from Sales and Use taxes was up 14.9% from a year earlier and 16% above forecast. The July revenue corresponds roughly to sales activity in June, a month in which U.S. Retail Sales had recovered from a plunge in April but was still only 1% higher than the previous year. DF&A revenue reports from the two previous months of sales tax receipts had indicated only a small decline in April taxable sales activity and an unexpectedly large *increase* in May.

The apparent increase in Arkansas taxable sales in June therefore just adds to the evidence that consumer spending in Arkansas has been remarkably resilient to COVID-related shutdowns and the associated economic contraction, relative to both the national averages and expectations. In this article, we break down available data by county and by sector to seek greater insight into the phenomenon.

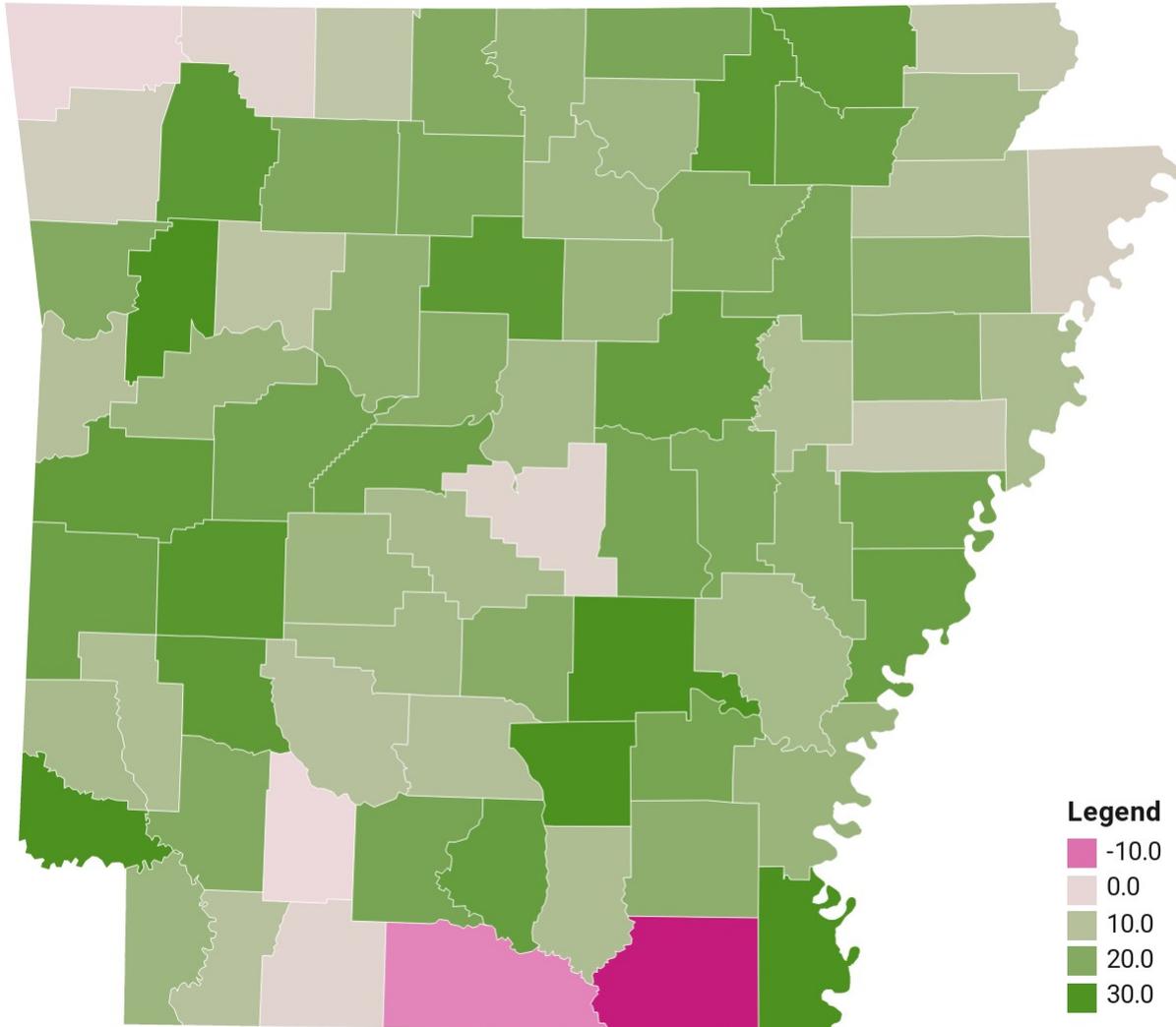
County Data

As we [reported a month ago](#), when county and local sales tax receipts corresponding to spending in April were released, the expected decline in consumer spending was notably absent. Forecasts suggested year-over-year declines on the order of 15%, but an aggregate of taxable sales for Arkansas counties showed little change from a year earlier. Granted, a zero-percent growth rate represented below-trend growth, but U.S. Retail sales were down 19.9% from a year earlier. Some individual counties fared better than others with growth rates ranging from -21.9% to +42.4%. But only 19 counties had negative growth rates and only 42 had growth rates below recent trend rates.

Data corresponding to local taxable sales in May were released in late July, further reinforcing the conclusion that consumer spending declines in the national data were not being reflected in Arkansas sales tax collections. U.S. Retail Sales were recovering, but still down 5.6% from the previous year. Yet only 4 Arkansas counties experienced negative year-over-year growth rates; an aggregate for all 75 counties showed an annual *increase* of 9.5%; and in over 60 of Arkansas' 75 counties, taxable sales growth was over 10%. The interactive map below, Figure 1, shows the extent and magnitude of taxable sales growth in May.

Figure 1:

Taxable Sales Growth - May 2020



Created with Datawrapper

[https://www.datawrapper.de/_/cD5qn/]

National Data vs. Arkansas Taxable Sales

In contrast to Arkansas, data on U.S. Retail Sales and Personal Consumption Expenditures (PCE) indicated dramatic declines in consumer spending during the second quarter. As already mentioned, U.S. Retail Sales and Food Services showed year-over-year declines in March, April and May. By June, Retail Sales had recovered significantly, but were up only 1.1 compared to the previous year. This weakness in retail spending was also reflected in last week's GDP report: the Bureau of Economic Analysis released data showing that second-quarter PCE was down 10.7% from a year earlier.

As shown in Table 1 and Figure 2 (below), data for Arkansas indicate only modest spending declines. On a year-over-year basis, the largest declines for both U.S. and Arkansas data occurred in April, but the declines in Arkansas were significantly smaller than the 20% drop in U.S. Retail Sales. The first measure for Arkansas, Taxable Sales Including Gasoline (ATSIG), was down only 3.2% in April. An alternative, the sum of county taxable sales (plus the gasoline component of ATSIG), declined only 4.1% from a year earlier.

Table 1:

U.S. Retail Sales and Arkansas Taxable Sales (Percent change from year earlier)			
	U.S. Retail Sales & Food Service	Arkansas Taxable Sales*	County Taxable Sales*
March	-5.6%	-0.1%	3.2%
April	-19.9%	-3.2%	-4.1%
May	-5.6%	7.3%	5.4%
June	1.1%	12.8%	

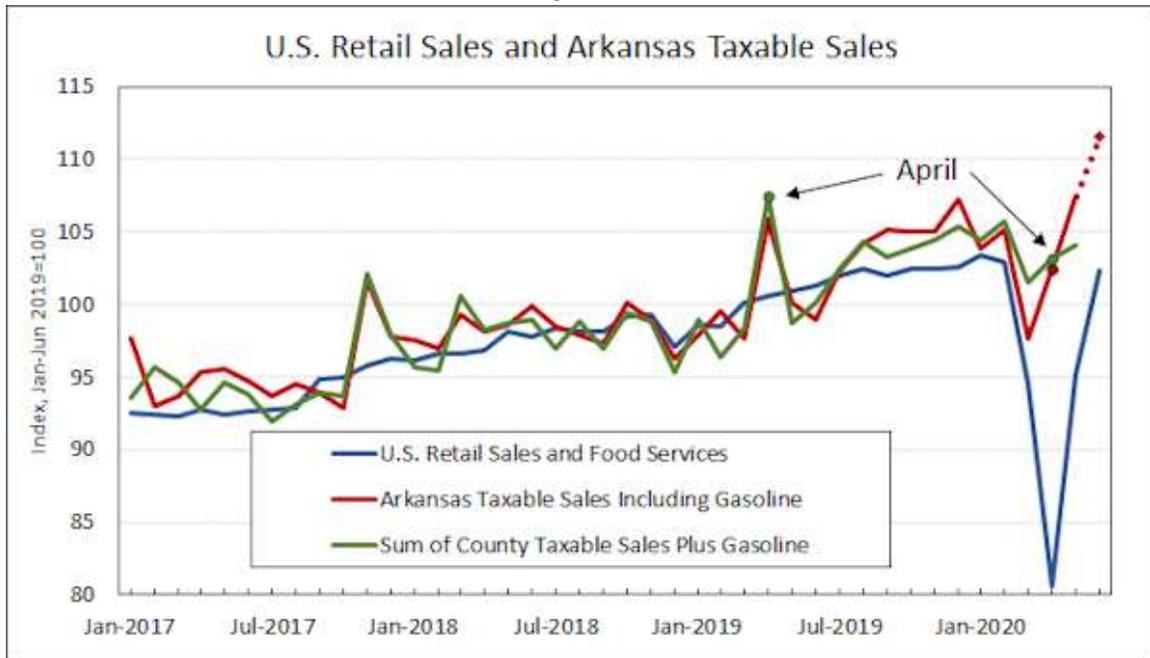
*Including gasoline.

Sources: Arkansas Department of Finance and Administration, Arkansas Economic Development Institute, U.S. Census Bureau, Oil Price Information Service.

But as shown in Figure 2, the year-over-year declines for both Arkansas estimates are assessed relative to April 2019, a month in which both measures showed a sharp spike above trend. The time-series illustrated in Figure 2 show that the sharpest month-to-month decline in the Arkansas data occurred in March, not April — and that decline was far smaller than the decline in U.S. Retail Sales. Measuring the change from January through March, U.S. Retail Sales were down 8.6%, while the two measures for Arkansas declined only 5.9% (ATSIG) and 2.8% (county data). U.S. Retail Sales declined another 14.7% from March to April, while the measures for Arkansas showed *increases* of 4.9% and 1.6%. And as also illustrated in Figure 2, a preliminary estimate of Arkansas Taxable Sales for June ventures into record-high territory.



Figure 2:



Sources: Arkansas Department of Finance and Administration, Arkansas Economic Development Institute, U.S. Census Bureau, Oil Price Information Service.

One notable feature of Figure 2 is the elevated level of Arkansas taxable sales (by either measure) during the second half of 2019. This followed the implementation of Act 822, which mandated out-of-state retailers to collect and remit sales and use taxes for online sales. Using simple linear regression techniques to estimate the trend shift that followed the implementation of Act 822, we estimate the magnitude of the effect to be approximately 3% [an estimate subject to considerable range of uncertainty.] This increase in the second half of 2019 is not literally an increase in taxable sales, but an effective broadening of the tax base to capture a more complete measure of spending. But when comparing year-over-year growth rates from the first half of 2019 through the first half of 2020, the intervening regime shift artificially adds about 3% to measured growth rates. This is part of the explanation for why Arkansas taxable sales have not fallen as sharply as the national retail sales statistics, but it only explains a fraction of the difference.

Another notable feature of Figure 2 is the difference between the two measures for Arkansas in March, the local trough month. As previously mentioned, the statewide measure declined more sharply than the county-based estimate. A likely explanation for this difference involves automobile sales, which are undercounted in our methodology for constructing the county-based measure (given the non-standard formula used to assess local taxes on automobile purchases). We'll return to that issue, but will exclude autos from the analysis for now.

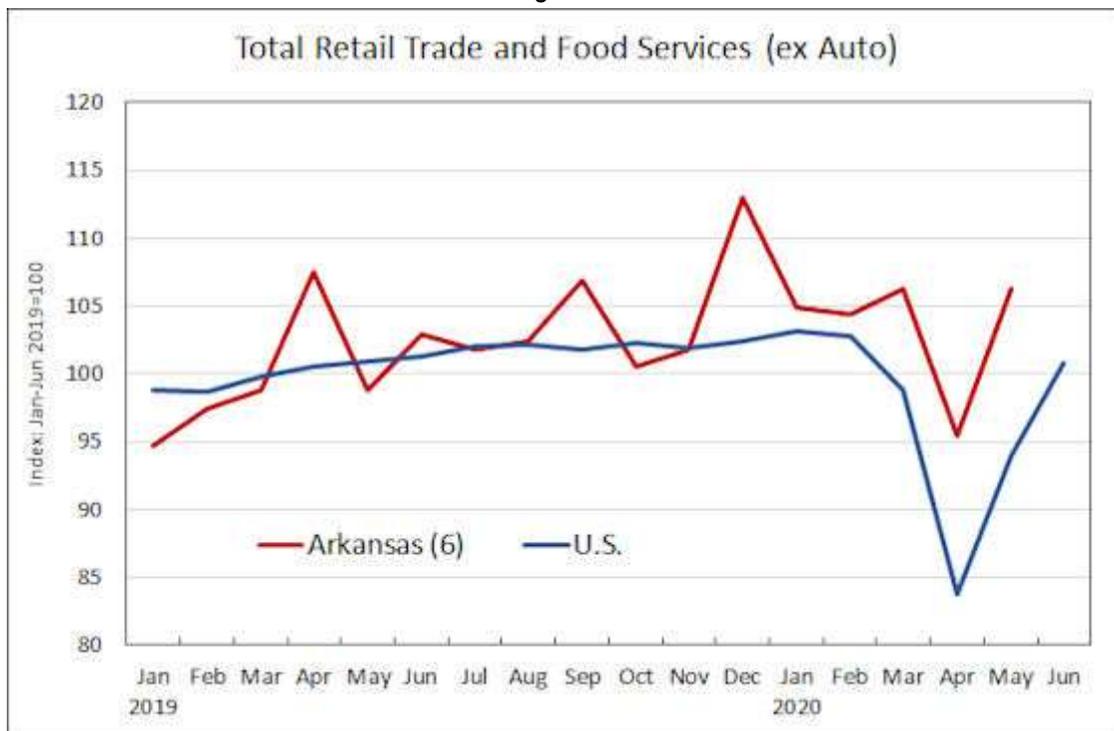
Retail Sales Components of Arkansas Taxable Sales

We can dig deeper by examining the data for county-level tax collections, which are [available from DF&A](#) with monthly breakdowns by sector using the North American Industry Classification

System (NAICS). In particular we can examine taxable sales for the specific retail sectors that comprise the U.S. Retail Sales data. In Figure 3 (and Figures 5.1- 5.13, below) we compare U.S. Retail Sales and its components to aggregates constructed using the six largest six counties in Arkansas. Together, these six counties — Pulaski, Benton, Washington, Sebastian, Craighead, and Garland — comprise approximately 50% of total taxable sales in Arkansas. The taxable sales data for this "Arkansas (6)" are seasonally adjusted using implicit seasonal adjustment factors derived from the U.S. Retail Sales data, and gasoline is incorporated into the total by adding 0.5 times the gasoline component of ATSIG. The indexes in the figures are normalized to the first half of 2019, so the scales provide a rough estimate of percent changes from year-ago trend values.

Figure 3 shows total U.S. Retail Trade and Food Services (Excluding Automobiles), along with the six-county aggregate for the corresponding NAICS codes (plus gasoline). Figure 3 indicates that the retail components of Arkansas Taxable sales did, in fact, show a month-to-month decline in April, although the downturn was not outside the range of normal month-to-month variation in the data. Compared to the first half of 2019, the U.S. Retail Sales measure was down 16% in April, while the Arkansas data show a decline of less than 5%.

Figure 3:

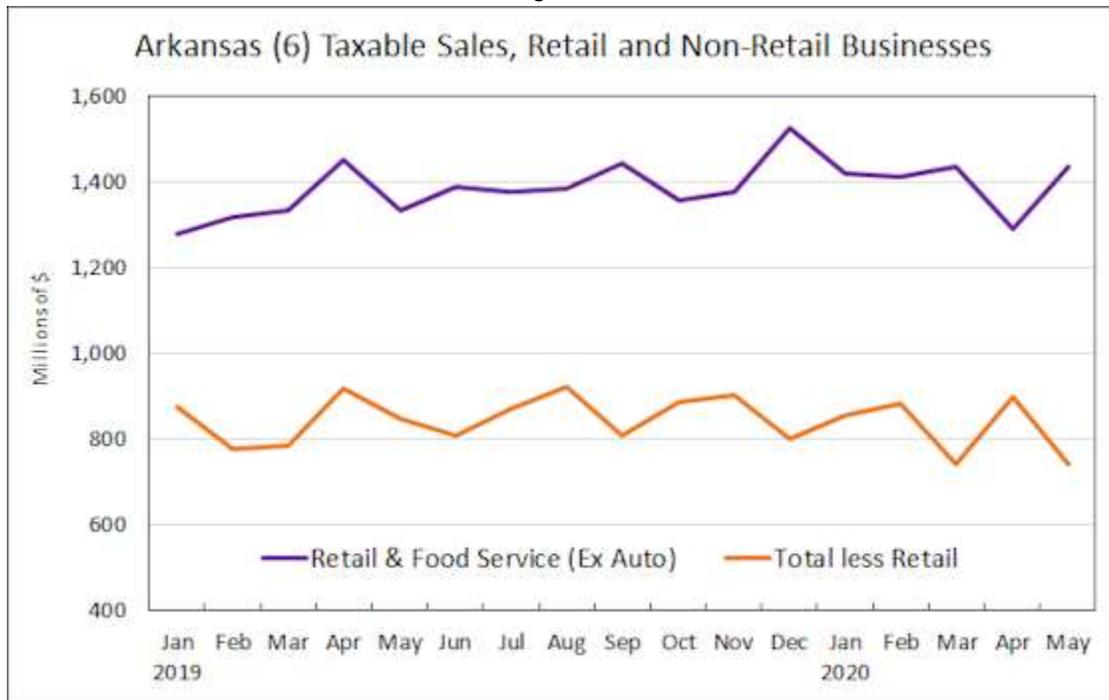


Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Oil Price Information Service, Arkansas Economic Development Institute.

The fact that this retail-based measure showed a distinct downturn in April suggests that the March trough in Figure 2 was the result of a decline in non-retail taxable sales. This is verified in Figure 4, which shows that a decline in the non-retail component swamped the small increase

in the retail component in March, while an increase in non-retail taxable sales April masked the decline in retail spending. Figure 4 also shows that retail spending recovered more sharply in May than the total taxable sales estimates suggest due to another drop in the non-retail component.

Figure 4:



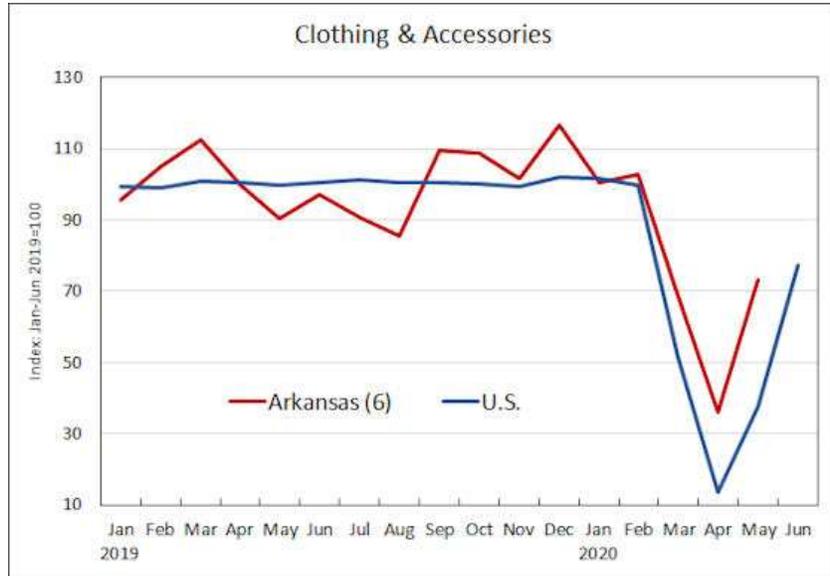
Sources: Arkansas Department of Finance and Administration, Oil Price Information Service, Arkansas Economic Development Institute

A Sector-By-Sector Analysis

In sectors that have been specifically affected by COVID-related shutdowns, Arkansas taxable sales generally show downturns that are aligned with corresponding components of U.S. retail sales, but the magnitudes of the COVID-related contractions are notably smaller. Examples include Furniture & Home Furnishings, Clothing & Accessories, and Food Service & Drinking Places.

Clothing & Accessories experienced the sharpest decline of any sector, with national retail sales falling nearly 90% from the levels of a year earlier. The Arkansas data show a decline of "only" 64%.

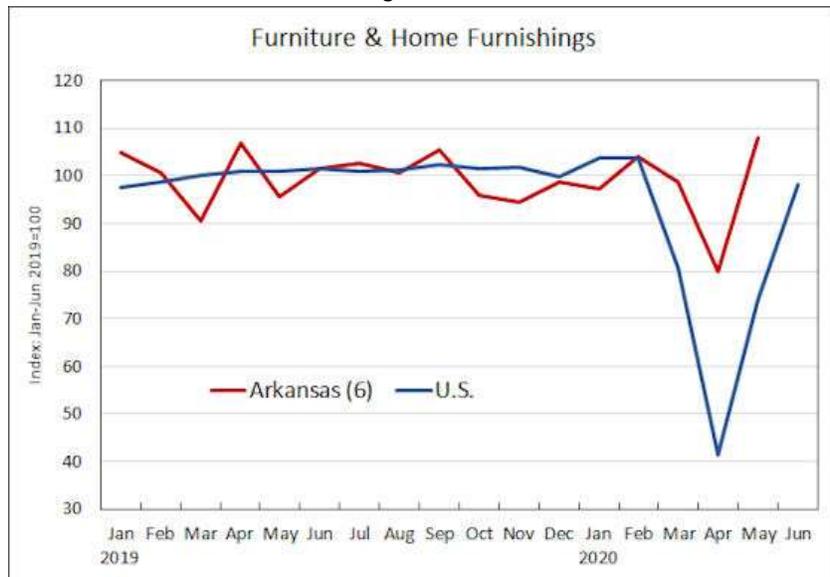
Figure 5.1:



Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

Furniture & Home Furnishings declined almost 60% in the national data and dropped about 20% in the Arkansas data.

Figure 5.2:

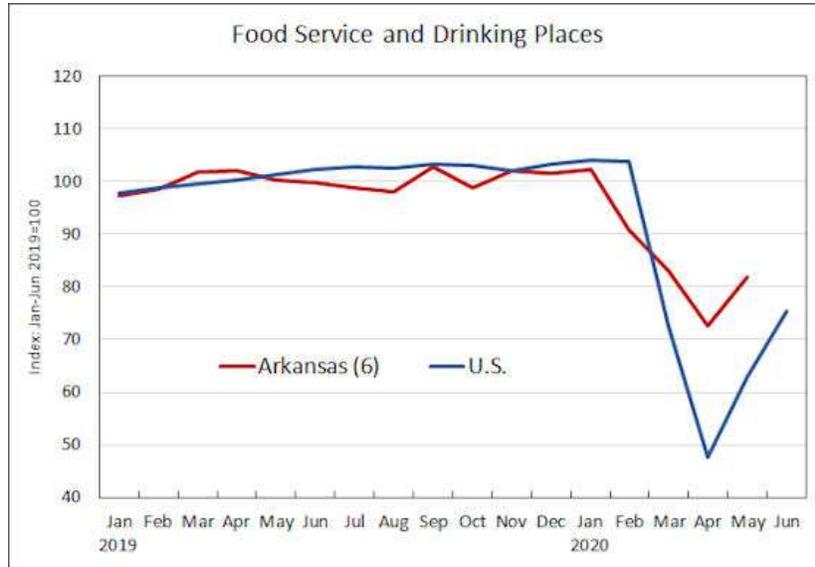


Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

One of the most prominently hard-hit sectors has been bars and restaurants. Anecdotal information suggests that Arkansas restaurants have been remarkably successful at adapting their operations to the pandemic, with delivery, curbside service and drive-through service

substituting for full-service operations. Figure 5.3 demonstrates this in the data: Although sales at Food Service and Drinking Places were declining prior to the onset of the pandemic, they reached a low point in April that was only 27% below the first half of 2019. In the U.S. Retail Sales data, the low point was down over 50%.

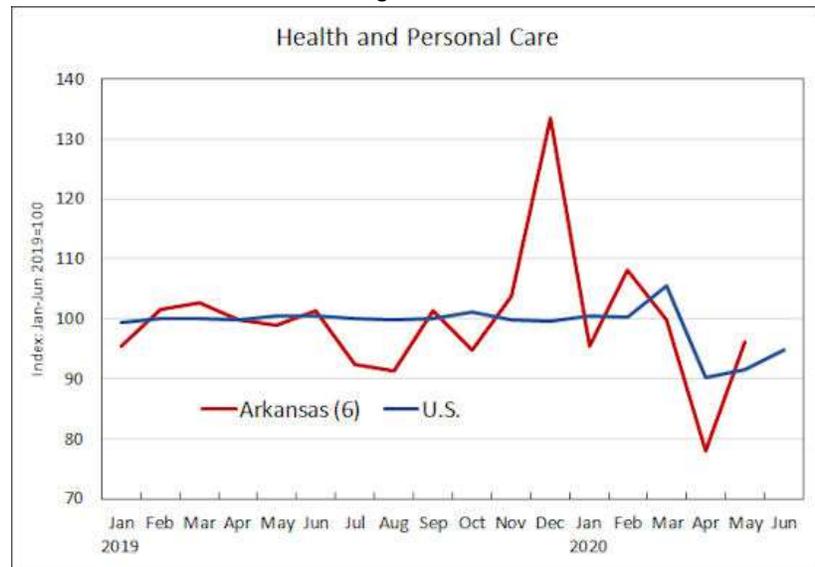
Figure 5.3:



Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

Health & Personal Care is another spending category that matches the general pattern of fluctuations in U.S. data, but shows a somewhat sharper decline in Arkansas than the national average. In the U.S. Retail Sales data, Health & Personal Care declined in April to a level only 10% below the previous year, while the decline was over 20% in Arkansas.

Figure 5.4:

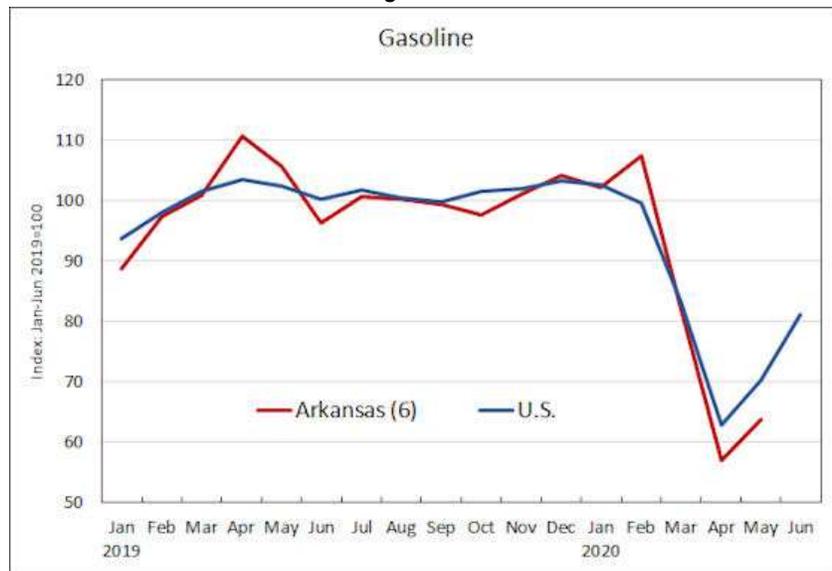


Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

(The Health & Personal Care components is one of several that shows a spike in December 2019. This is likely an artifact of end-of-year remittances that were larger than usual, perhaps due to the mid-year implementation of out-of-state sales tax collections.)

Gasoline sales represent another spending component that declined as much or more in Arkansas as the U.S. Figure 5.5 combines county data for taxable sales at gasoline stations with the gasoline sales component of ATSIG, showing a decline of 45%. The U.S. Retail Sales data show a decline of 38%. Unlike spending declines in several other categories, declining gasoline expenditures reflect both falling prices and slowing sales. From January through April, the average retail price of gasoline in Arkansas fell from \$2.25 to \$1.48, a 34% decline. Meanwhile, the number of gallons of gasoline sold fell by 56%. Although retail sales of gasoline fell sharply through April, the fact that gas is exempt from sales tax in Arkansas means that the decline in this particular spending component had no impact on sales tax receipts by state or local governments.

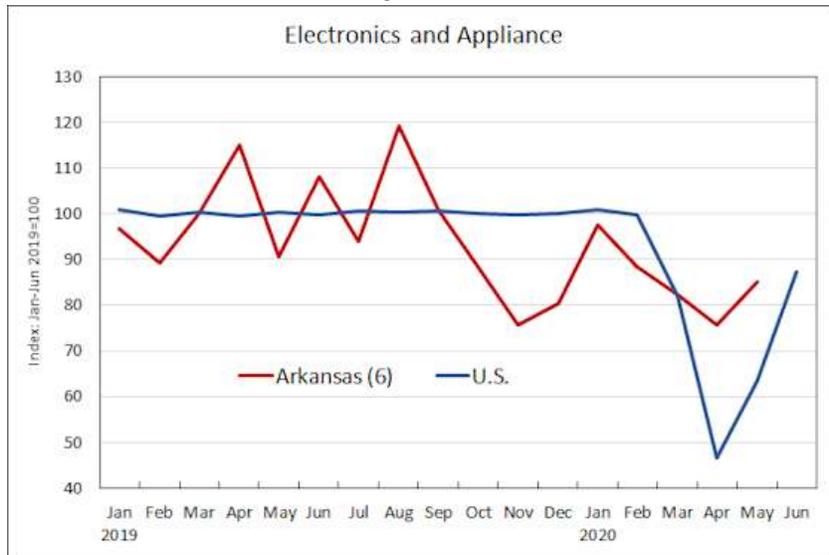
Figure 5.5:



Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Oil Price Information Service, Arkansas Economic Development Institute.

One other area of spending that showed low sales in April (albeit not a sharp monthly decline) was at Electronics and Appliance stores. The Arkansas data show relatively weak sales toward the end of 2019, with a low point in April that was down 18% from early 2019 levels. Meanwhile, the corresponding component of U.S. Retail Sales was down more than 50%.

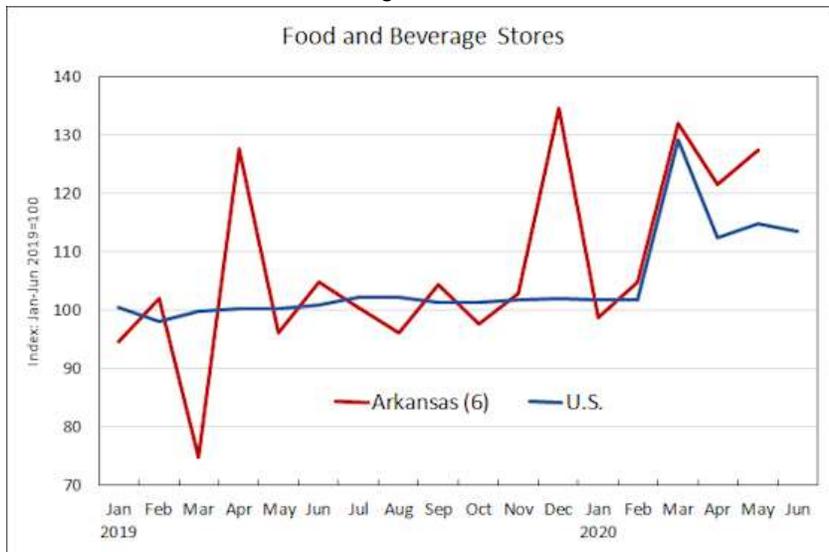
Figure 5.6:



Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

Some sectors experienced increases in sales, particularly in the early phase of the pandemic and during the initial economic shutdowns. In both the U.S. and Arkansas data, Food & Beverage store sales surged by approximately 30% in March, and have remained elevated — moreso in Arkansas than the U.S.

Figure 5.7:



Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

Similarly, General Merchandise Stores showed a March spike in both the U.S. and Arkansas data. The subsequent downturn in April and recovery in May still left Arkansas sales well above levels of a year earlier.

Figure 5.8:



Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

Another sector that appears to have benefited from more time spent at home is Building Materials and Garden Equipment & Supplies. In Arkansas, sales in this sector surged to 17% above previous-year levels in March and over 22% in April. In the U.S. data, sales did not rise until May, but had risen to 15% above previous-year levels in May and June.

Figure 5.9:

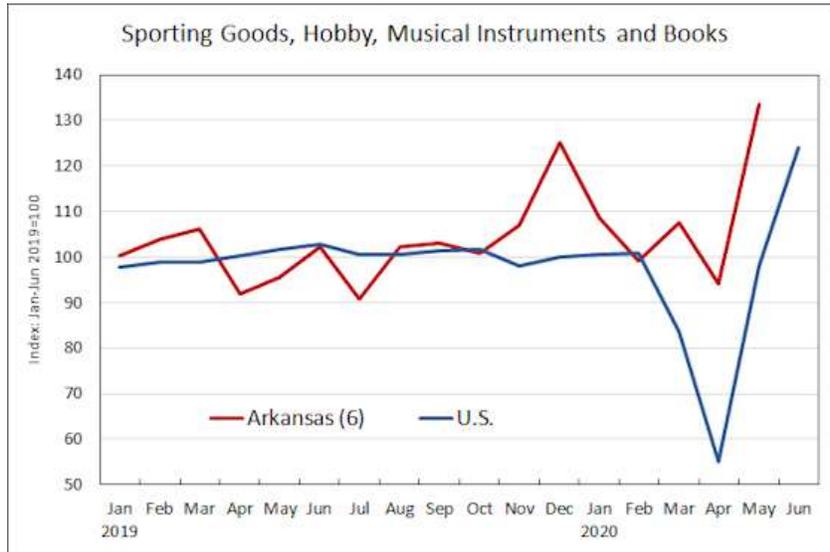


Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

As a group, Sporting Goods, Hobby, Musical Instrument and Book Stores also seem to have fared relatively well in Arkansas. In the U.S. data April sales were down 45%, but Arkansas

showed no significant decline. For both the U.S. and Arkansas measures, pent-up demand appears to be driving a surge in the post-April data.

Figure 5.10:



Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

Another relatively small sector that seems to have thrived in Arkansas during COVID-related shutdowns is Miscellaneous Store Retailers, which has remained above year-ago levels throughout the pandemic and was up 20% as of May. Meanwhile, the national counterpart to this measure dropped 30% in April and is gradually recovering through June.

Figure 5.11:



Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

The sector that shows the largest impact out-of-state sales tax collections is Non-Store Retailers, which includes NAICS sector 4541: Electronic Shopping and Mail-order Houses. As shown in Figure 5.12, Arkansas sales in this sector doubled from the first half of 2019 to the second half of the year (attributable to Act 822) and has shown an increase of similar magnitude during 2020. The increased popularity of online shopping during the pandemic is evident in the U.S. data as well, but it appears that the substitution of internet sales for brick-and-mortar shopping has been more significant in Arkansas than elsewhere.

Figure 5.12:

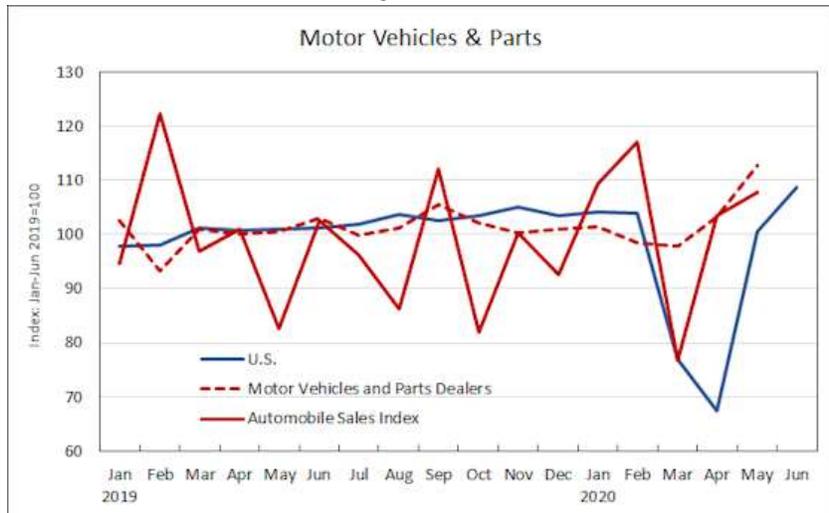


Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

One final sector to consider is automobile sales — an important component of consumer spending. Sales at Motor Vehicle and Parts Dealers account for about 20% of total U.S. Retail Sales. But because of the quirky way county and local sales taxes are assessed on auto sales in Arkansas (\$25 per 1% sales tax rate, regardless of the value of the transaction), the county NAICS data from the Department of Finance and Administration cannot be used to construct a taxable sales measure. And for that matter, used car sales are subject to Arkansas sales tax but are not included in U.S. Retail Sales.

In an effort to approximate the role of auto sales in Arkansas consumer spending, Figure 5.13 compares the U.S. Retail Sales data for Motor Vehicle and Parts Dealers to indexes of two relevant measures that are available using DF&A data. The first measure represents taxable sales at Motor Vehicle and Parts Dealers, excluding the sale of automobiles. It represents a proxy measure for general activity in the automotive sales sector. The second measure, perhaps more relevant, is an index of auto sales that is constructed from the county-level data. It can best be interpreted as an index of the number of vehicles sold (new and used). Both measures show something of a low-point in March, with increases in April and May.

Figure 5.13



Sources: U.S. Census Bureau, Arkansas Department of Finance and Administration, Arkansas Economic Development Institute.

The increases in April and May are consistent with the monthly revenue reports from DF&A, which noted the motor vehicle portion of sales tax receipts was up 25% in June (corresponding to May sales). The latest report noted that motor vehicle sales were up another 12.5% the following month. The low point in March suggests that auto sales were a factor contributing to the drop in total taxable sales in that month, and in the subsequent recovery that masked declines in other spending components. Indeed, In Figure 4 (above) the "non-retail" component technically includes this important motor vehicle sales component.

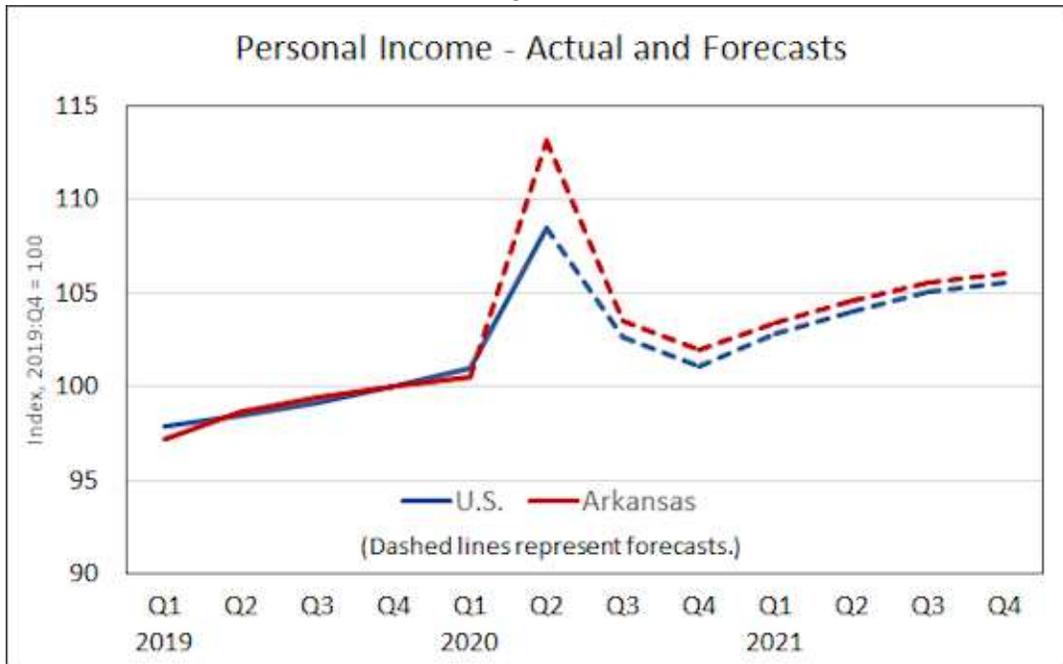
Conclusions and Explanations

So it turns out that retail spending in Arkansas did, in fact, decline in April — particularly in sectors directly affected by Covid-related shutdowns. But the declines were far smaller than indicated in the U.S. data, and spending growth since April has outpaced the national spending recovery.

Several factors are likely to have contributed to this pattern. First, the COVID-related shutdowns that were implemented in Arkansas were not as restrictive as in many other states, facilitating a somewhat more normal continuation of commerce. Second, the implementation of Act 822 in 2019 increased sales tax receipts for state and local governments, independent of any actual change in consumer spending. But this explains only a portion of the measured year-over-year growth comparisons.

An undeniably important factor has been the role of government support and stimulus payments helping to maintain income and spending. Last week's U.S. GDP report revealed that personal income from transfer receipts increased by 75% in the second quarter, driving an increase in total personal income of 7.3%. Transfer payments account for a larger share of Arkansas income, so the increase in transfers in the second quarter has likely had an even larger impact here. Forecasts indicate that total personal income in Arkansas (including transfers) increased by 12.5% in the second quarter.

Figure 6:



Sources: U.S. Bureau of Economic Analysis, IHS Markit, Arkansas Economic Development Institute.

Generally speaking, economists have found that temporary gains in income, like those associated with the stimulus payments and other temporary income support programs, do not lead to one-for-one increases in consumer spending. Rather, some of the windfall is saved or, equivalently, used to pay down household debt. Under the current economic conditions, it appears that the propensity to consume by Arkansas households is high enough that the temporary income gains due to government stimulus programs has been significant enough to not only sustain consumer spending during the shutdowns, but to boost expenditures during the partial re-opening phase.

Looking forward, the prospects for continued strength in consumer spending depend on two factors: First and foremost, the economic outlook overall is dependent on the course of the COVID-19 pandemic and efforts to control it. As noted by Federal Reserve Chair Jerome Powell said last week, "the path of the economy will depend significantly on the course of the virus." More specifically with regard to consumer spending, the income support provided by government stimulus and support payments has been a crucial factor thus far, and in the absence of a full reopening of a post-pandemic economy, it is likely to remain an important factor over the next several months. As shown in Figure 6, the recent expiration of some of these programs implies a sharp drop in transfer payments and personal income over the second half of 2020. Congress is presently considering extensions and additional stimulus measures, but the timing and magnitude of those actions are, as yet, unclear.