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COVID-19 Impacts on Arkansas' Agricultural and Rural Economies

May 2020

John D. Anderson, Editor

Foreword

In response to the COVID-19 pandemic in 2020 and the unprecedented economic disruptions that it caused, faculty in the Agricultural Economics & Agribusiness Department (AEAB) at the University of Arkansas (UA) produced a series of regular economic updates for distribution by the UA Division of Agriculture, Cooperative Extension Service. These updates were originally posted to a COVID-19 resources page on the UA Division of Agriculture website (https://www.uaex.edu/life-skills-wellness/health/covid19/COVID-Economic_Impacts_in_Arkansas.aspx).

In order to preserve the information in these publications as well as to provide an easily referenced format for future research, outreach, and educational purposes, these publications are being reproduced as a series of AEAB Staff Papers. The table of contents on the following page individually lists each article compiled in this volume along with its original date of posting. The articles in this volume were all produced in the month of May 2020.

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Implications of COVID-19 for Arkansas' Row Crop Producers

Scott Stiles, Brad Watkins, C. Robert Stark, Jr., Alvaro Durand-Morat

May 4, 2020

The weather improved last week, giving farmers more time to do fieldwork, which resulted in larger gains in planting for all major field crops but especially for corn. The USDA *Crop Progress* report of May 4 indicates that 48% of the rice, 68% of the corn, 20% of the soybean, and 11% of the cotton acreage in the state has been planted relative to an average of 71%, 88%, 32%, and 21% respectively, in the last five years.

At this point, some processing demand reductions have been identified in the livestock sector to the point of producers disposing of excess animals. The past week saw more reports of rerouting, primarily livestock diversions to alternative locations due to workers with positive COVID-19 tests at processing plants. Adjustments of this type with associated increased costs eventually will reduce demand for both corn and soybean as feed inputs.

Commodity Markets

Rice

Prices in the global rice market remained stable last week, albeit at higher levels than before the COVID-19 outbreak. Thai and Viet long grain 5% were quoted at $535 and $470 per ton in the week of April 27. There have been few changes in the COVID-19-related policies implemented primarily by exporting countries that led to the increase in prices. Worth noting, though, is an increase in export activities from India, although not even close to their capacity under normal conditions.

Rice prices in the U.S. registered slight gains last week. Old crop prices (July contract) increased by 0.8%, and closed at $14.775 per hundredweight, while new crop futures prices (September contract) gained 0.5%, and closed at $11.925 the week of April 27. Year-to-date, new crop futures prices have decreased slightly from $12.03 at the end of the first week in January.

Corn

Arkansas corn cash market prices declined 8.5% in April, ending the month at $3.22 per bushel. Corn futures prices were down 0.6% last week and closed at $3.254 per bushel on May 1st. U.S. corn export sales totaled 66.7 million bushels for the most recent week reported (i.e., April 23 report), exceeding all trade guesses. Corn export shipments over the same period improved to 41.4 million bushels, 27% higher than the previous week.

Soybeans

Cash soybeans in Arkansas lost 4% or 35 cents/bushel in April, falling to $8.47 on the last trading day. The Arkansas 2020 crop-booking price declined to a lesser extent, possibly indicating a longer-term "wait-and-see" attitude toward the virus effects by industry. Soybeans futures prices were up 1.6% last week and closed at $8.550 per bushel the week of April 27. New crop soybean booking price fell 20 cents in April to an $8.47 ending price. U.S. soybean export sales improved to 39.6 million bushels for old crop beans in line with trade expectations. Export shipments were just under 21.0 million bushels, an improvement of 21% over the prior four-week average.

Cotton

A report on April 23 that China plans to buy roughly 4.6 million bales for strategic reserves has lent support to cotton prices. China is currently the second largest export market for U.S. cotton. Talk of a gradual reopening of the U.S. economy is also price supportive. Cotton futures traded this week to the highest levels seen since March 18th. The December 2020 contract finished 10.3% higher for the month of April at 58.92 cents per pound.

Cotton prices do, however, continue to face headwinds from the collapse in crude oil prices and the resulting price competitiveness of synthetic fibers. Global textile mills are still not running at pre-COVID-19 capacity. The recent announcement of cotton purchases by China may amount to nothing more than the movement of cotton inventories from one geographic location to another as consumer spending is expected to be conservative for the near future. Many U.S. textile mills plan to remain closed through early May. Some are gradually phasing in operations on a limited basis. Most production is currently centered on personal protective equipment for frontline workers and military supplies in response to the pandemic.

Others comments

The agriculture sector is still waiting for USDA to release rules and schedule signup for $16 billion in direct payments intended to compensate farmers for the impact of COVID-19. Lobbying efforts have focused on the exclusion of payment limits.

As the full U.S. Senate returns to Washington this week, the expectation centers on the potential for a new large coronavirus aid package and what it may include for the agricultural sector.

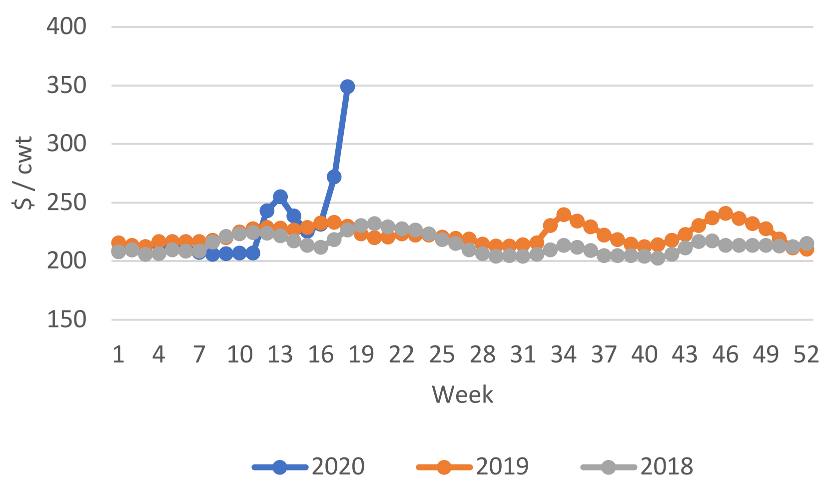
Wholesale meat prices

John D. Anderson

May 4, 2020

Beef and pork processing activity continued to slow this week, notwithstanding the president's invocation of the Defense Production Act to declare processing plants to be critical infrastructure. In Friday afternoon's [Estimated Daily Livestock Slaughter under Federal Inspection](#) report from USDA Agricultural Marketing Service, cattle slaughter is estimated to be down another 40,000 head (8.6%) from last week's already low level. Hog slaughter is estimated to be down another 440,000 head (22%) from last week.

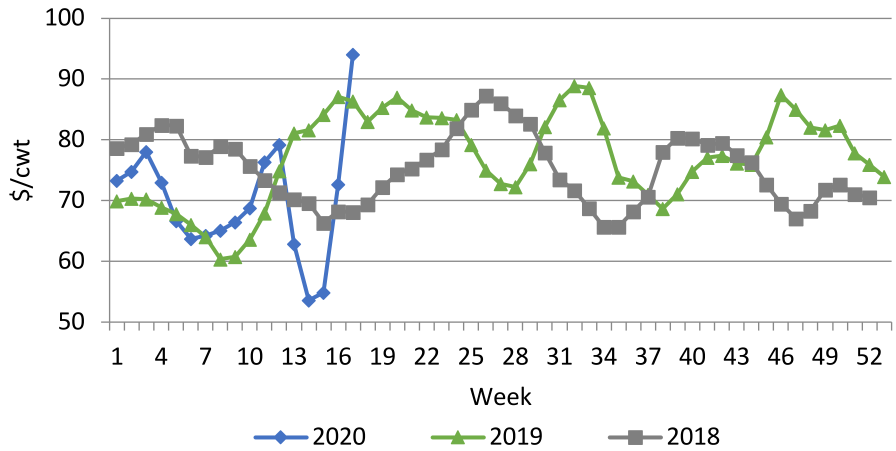
The effects of several consecutive weeks of sharp declines in slaughter are showing up in wholesale meat prices. Two weeks ago, wholesale beef prices surged to a new record level at $272.33/hundredweight (cwt). The previous record level on the Choice cutout was $263.19 in late-May 2015. Last week, the Choice cutout value pushed further into record territory, reaching $349.01/cwt – an increase of $76.68 (28%) from the prior week. Figure 1 shows the weekly average of the Choice boxed beef cutout value for the past three years.



Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.
Figure 1. Weekly Average Choice Boxed Beef Cutout Value

The pork cutout has posted similar gains over the past couple of weeks. For the week ending April 10, the wholesale price of pork bottomed out at a cutout value of $53.55/cwt. Last week, the pork cutout climbed to $94.05, an increase of just over 75 percent in a three-week span. Figure 2 shows the weekly average of the pork cutout value for 2018 through 2020, year-to-date.

Obviously, wholesale pork prices have risen dramatically in the past three weeks, but they are not yet that far out of line with recent history. A year ago, wholesale pork prices were in the high $80s. As a point of reference, the record level for the pork cutout value is $136.11, posted for the week ending July 18, 2014; so the pork market is still has pretty far to go to reach uncharted price territory. Given the magnitude of the disruptions roiling the market now, though, it's hard to rule anything out.



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

Figure 2. Weekly Average Pork Cutout Value

To summarize the current situation, processing plant disruptions have created a severe bottleneck in the beef and pork supply chains. Downstream from that bottleneck, wholesale meat prices have soared as customers face smaller supplies of available product. On the other hand, upstream from that bottleneck, livestock prices have fallen as market-ready supplies of animals continue to come to a market which no longer has enough capacity to handle them.

Cattle prices remain under pressure due to the reduction in demand for fed cattle resulting from plant closings and slow-downs. Two weeks ago, the five-area weighted average fed steer negotiated live price fell to $96.69/cwt. Last week, the market improved a bit, with the five-area negotiated live price coming in at $98.18/cwt, its first increase in over a month. The volume of transactions was relatively light, with just over 46,000 head traded in negotiated transactions. Last year for the same week, negotiated transactions amounted to almost 129,000 head. Price behavior in the hog market has been similar to the cattle market. Two weeks ago, negotiated hog prices fell to $33.85/cwt (carcass basis). Last week, negotiated hog prices rebounded a bit to $36.62. Volume of sales are down some from a year ago, but not as much as for cattle. Negotiated hog sales are already a very small percentage of the total volume of sales in the hog market.

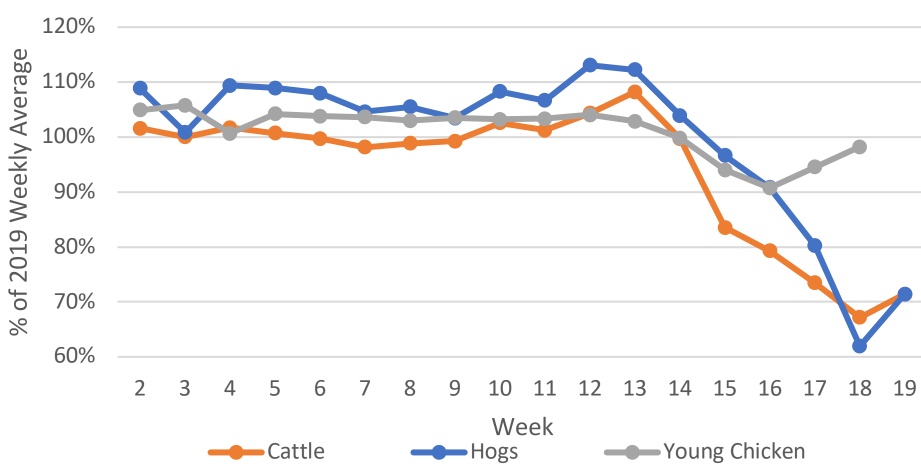
Livestock and Poultry Slaughter and Prices

John D. Anderson

May 8, 2020

Cattle and hog slaughter figures finally turned higher last week after several weeks of falling sharply due to multiple plant shut-downs and slow-downs due to COVID-19. In last Friday afternoon's Estimated Daily Livestock Slaughter under Federal Inspection report from USDA Agricultural Marketing Service, cattle slaughter was projected to rebound to 452,000 head this week after falling to 425,000 head the prior week. Hog slaughter was estimated to hit 1.768 million head last week, up from 1.533 million head the prior week.

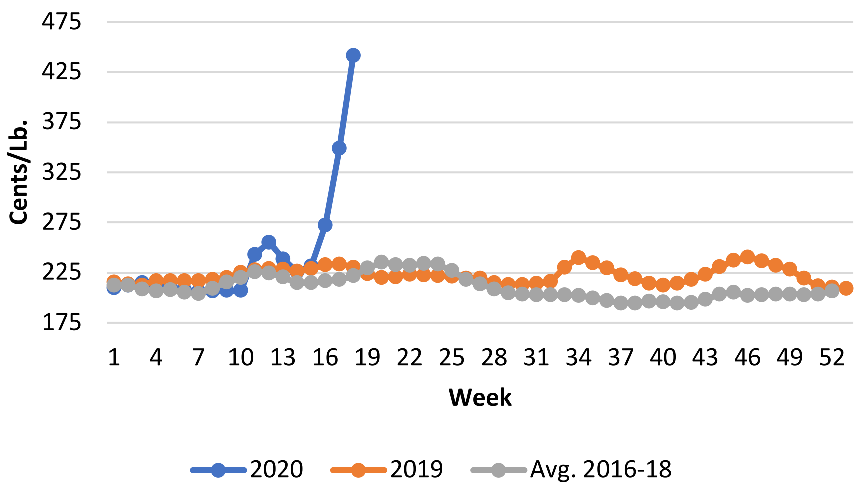
While the modest bounce in slaughter levels is a positive development, suggesting at least the beginning of a move back toward normal, processing capacity remains constrained. Last week's cattle and hog slaughter numbers both remain about 28% below last year's average weekly slaughter level. Considerable further recovery in processing rates will be needed to alleviate major production disruptions and stabilize markets. Data suggests that the broiler sector, as a whole, has come closer to resuming normal operations. Broiler slaughter for the week ending May 2 (most recent complete broiler data available) amounted to 162 million birds. This was 98 percent of 2019's weekly average rate of production. Figure 1 shows weekly cattle, hog, and broiler slaughter as a percent of 2019's weekly average.



Data Source: USDA Agricultural Marketing Service.

Figure 1. 2020 Weekly Cattle, Hog, and Young Chicken Slaughter as a % of 2019 Average Weekly Slaughter

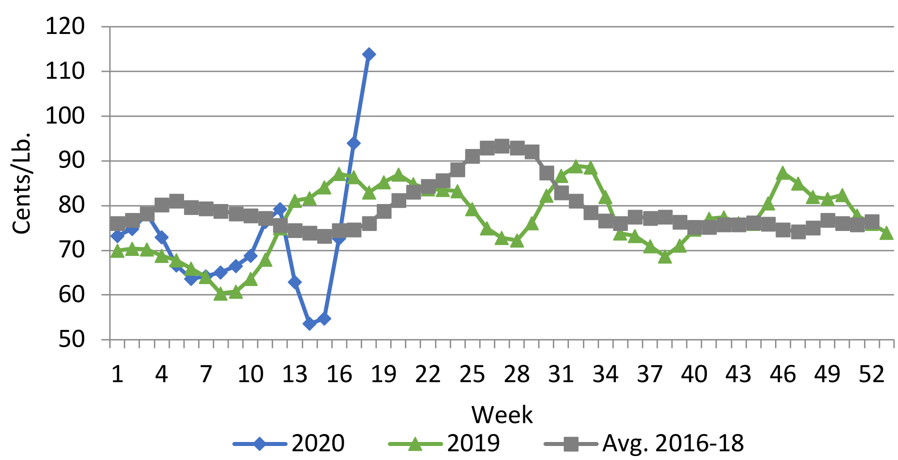
Wholesale beef and pork prices continued to move higher last week as constrained production remained the defining feature of the market. For the week, the Choice boxed beef cutout value averaged $441.53/hundredweight (cwt), an unprecedented average price for wholesale beef. The Choice cutout has almost doubled since the first week of April. While all of the major beef primal cuts have increased in value over that period of time, the surge in the value of beef trimmings has been particularly astonishing. For the week ending April 3, the price of fresh 50 percent lean beef trimmings (a major component of ground beef) averaged $28.49/cwt. Last week, it averaged $275.28/cwt, an increase of over 800 percent. With production sharply lower and demand for this staple item (of both food service and grocery retail business) strong, prices have exploded. For context, though, while little remembered now, fresh 50 percent lean trim prices topped $200/cwt about this time of year in 2017.



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

Figure 2. Weekly Average Choice Boxed Beef Cutout Value

The pork cutout has also increased sharply as the decline in processing constrains available supplies. Last week, the pork cutout averaged $113.94/cwt, up from $94.05 the prior week. Similar to the beef market, the pork cutout has more than doubled since the week ending April 10. The big mover among pork primal cuts has been bellies (from which, bacon). Pork belly wholesale prices increased from $34.54/cwt the week ending April 10 to $191.48/cwt last week, an increase of over 400 percent.



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

Figure 3. Weekly Average Pork Cutout Value

Fed cattle price finally gained a bit of ground last week. On Friday, the week-to-date 5-area weighted average negotiated live price was $100.04/cwt, up almost $5/cwt from the previous week. This was the second week in a row of modest gains in cash cattle prices, though the volume of cash sales remains historically low, as would be expected given the slow pace of processing. Feeder and stocker cattle prices were also slightly improved from the prior week. The weekly Arkansas livestock summary from USDA Agricultural Marketing Service called feeder cattle prices steady to $5 higher than the prior week, with the volume of sales also increasing week-to-week.

ERS Retail Meat Prices

John D. Anderson

May 14, 2020

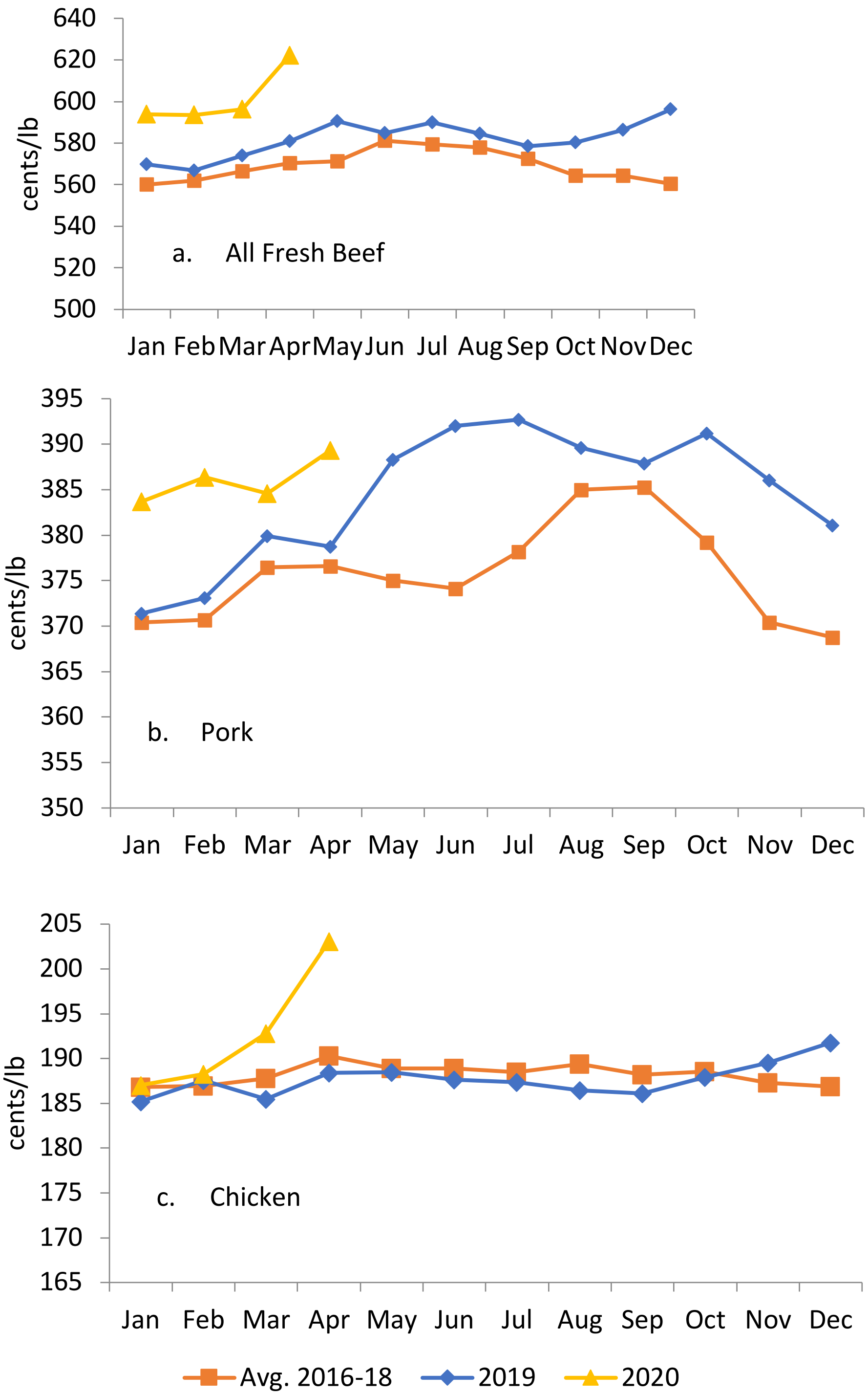
On May 12, USDA Economic Research Service (ERS) updated its monthly meat price spread data. This data reports includes monthly average retail prices for beef, pork, and chicken based on information collected by the Bureau of Labor Statistics (BLS) for computation of the monthly Consumer Price Index (CPI), the most commonly used measure of inflation.

Beef, pork, and chicken retail prices reported by ERS were all substantially higher in April. This is not too surprising. One of the biggest COVID-19 stories of the past month has been how processing plant disruptions have constrained available meat supplies. The surge in wholesale prices in the past month has been well documented and widely noted. It appears that at least of portion of that higher wholesale price was passed on to consumers in the form of higher retail prices.

The all fresh beef price (which includes data on all quality grades of retail beef, not just Choice) reached a new record level of 622.2 cents/pound. This is the first time since 2015 that the all fresh price has been above 600 cents/pound. Retail pork prices increased more modestly, notching a 1.2% rise from the prior month to average 389.3 cents/pound. This price level is really not out of line with recent history. Finally, retail chicken prices rose by over 5% from the previous month, with the national retail broiler composite price averaging 203.1 cents/pound for April. This matches a record set in 2013. Figures 1a-c show ERS monthly retail prices.

It is a bit surprising that the biggest month-over-month percentage increase in retail price was observed in chicken. Given the more severe disruptions in beef and pork supply chains, a bigger jump in those retail prices might reasonably have been expected. Of course, supply only describes one side of the market. It seems likely that recent events are more supportive of chicken demand than of beef or pork demand. Despite the bigger percentage jump in April, chicken remains the most affordable of the three major proteins. With falling consumer incomes and heightened perceptions of risk, consumers are likely favoring lower-priced product. Moreover, with most food being prepared and consumed at home now, the greater availability of ready-to-eat and/or convenience products from chicken may also be influencing consumer demand.

ERS meat price data also estimates the spread between prices at different levels of the supply chain. Again, the effects of April's processing sector disruptions are apparent in that data. ERS reports an April farm-to-wholesale price spread (i.e., the difference between the wholesale value of the meat derived from an animal and its farm-level net value) of 165.1 cents/pound – or about 41% of a carcass' wholesale value of 402 cents/pound. That is a record wide spread between farm and wholesale values and clearly demonstrates the unprecedented market consequences of the sharp loss in slaughter/processing capacity in the sector in April. The farm-to-wholesale spread in pork also increased modestly in April to 59.9 cents/pound (or 49% of the wholesale value of 121.6 cents/pound). This is a relatively wide spread seasonally, but it is not unprecedented.



Data Source: USDA Economic Research Service, Meat Price Spreads.

Figure 1a-c. Beef (a), Pork (b), and Chicken (c) Retail Prices

Implications of COVID-19 for Arkansas' Row Crop Producers

Scott Stiles, Brad Watkins, C. Robert Stark, Jr., Alvaro Durant-Morat

May 18, 2020

Despite the wet weather limiting the time to do fieldwork, the USDA *Crop Progress* report of May 18 indicates that 76% of the rice, 93% of the corn, and 47% of the soybean and cotton acreage in the state has been planted, which is an improvement from last year for all crops but still behind the average of 88%, 97%, 57%, and 71%, respectively, in the last five years. Sixty seven percent of the corn and 62% of the rice acreage is in good condition or better.

Commodity Markets

Rice

Prices in the global rice market have receded in the last two weeks but still remain around $100 per ton above pre-COVID levels for most Asian origins except Thailand and India. Thai and Viet long grain 5% were quoted at $480 and $470 per ton in the week of May 11, while India's 5% was quoted very competitively at $370 per ton. However, the stay-at-home orders that remain in place in India, Pakistan, and others still impair their export capacity.

The U.S. rice market seems to be back on trend after the surge in domestic demand due to COVID-19. Market prices remain strong due to the short old-crop supply remaining. Old-crop prices (2019-20 marketing year, July CME contract) increased by almost 4% and closed at $16.015 per hundredweight, while new crop (September) futures prices decreased slightly and closed at $11.905 the week of May 11. Year-to-date, new crop futures prices have decreased slightly from $12.03 at the closing of the first week in January, in expectation of a larger 2020 crop. The May *World Agricultural Supply and Demand Estimates* (*WASDE*) report estimates that U.S. long grain production will reach 155.5 million hundredweight in 2020, a 24% increase from 2019.

Corn and Soybeans

Feed demand is showing uncertain short-term direction. Some livestock are being held longer on feed in hopes of still having marketing opportunities. National news reports of livestock being euthanized due to a lack of available processing capacity are easing, but the reduced output of these facilities over the recent days and weeks is still being fully factored into prices. Reduced placements in grow-out facilities will eventually reduce demand for both corn and soybean feed components. Crop markets appear to be taking a "wait-and-see" approach that may linger for several weeks, at least until crop planting is finished and the first crop condition reports appear.

Export markets are also uncertain as China rapidly moves to repopulate its swine production while also changing its feed ration ingredient proportions to maximize technical and economic efficiencies. Prospects for fulfillment of the Phase 1 export agreement between China and the U.S. remain open to speculation. Adjustments of this type will likely continue through the summer and inject ongoing uncertainty into crop prices. U.S. and world stocks of corn and soybean are high and projected to increase, barring some type of crop yield decline. These levels will place further pressure on prices along with production in competitive export countries.

Arkansas corn cash market prices remained fairly stable in the last two weeks and closed the week of May 11 at $3.27 per bushel. Corn futures prices decreased slightly and closed at $3.23 per bushel the week of May 11. Year-to-date, corn futures prices are down significantly by around 20%.

Arkansas soybeans cash market prices closed the week of May 11 at an average of $8.34 per bushel, with an overall 27 cent loss from the previous week. Soybean futures prices fell 1.5% and closed at $8.454 per bushel the week of May 11. Year-to-date, soybean futures prices are down significantly by around 14%.

Cotton

It is becoming more apparent that significant damage has been dealt to apparel retailers. The U.S. Commerce Department released a report May 15th indicating retail spending fell a record 16.4% in April from the previous month. The hardest hit sector was clothing stores. Sales were down 78% compared to March and 89% compared to April 2019. Furniture and home furnishing sales were down 58.7% in April.

Considerable uncertainty remains regarding how long the economic downturn will last and what form the eventual recovery will take. Given that China was the first country affected and the first to show signs of recovery from COVID-19, consumer behavior there may provide some insight. Retail sales data from China for March and April are not encouraging, with overall spending down approximately 20% year-over-year in each month. This might suggest that consumer spending in other parts of the world will be conservative for a period following the reopening of economies.

Despite the negative effects of COVID-19 on consumer spending, cotton futures prices have been able to gain 5.5 cents or 10% over the past month. One supportive factor has been strong U.S. export sales to China--perhaps as part of the Phase 1 trade agreement. Another source of support could be from financial markets. Stock indexes have also edged higher on optimism that parts of the economy would begin to reopen soon. Price upside for cotton remains limited as market fundamentals are solidly bearish. In USDA's May *WASDE* report, world mill use was lowered by 5.58 million to 105 million bales. This would be lowest global mill use since 2011. World ending stocks for the current marketing year are projected at a 5-year high of 97.16 million bales.

Others comments

It is expected that the USDA will announce signup for the $16 billion Coronavirus Food Assistance Program any day after the White House Office of Management and Budget completed its review of USDA's plans last Friday (May 15).

Livestock Market Update: Cattle on Feed, Coronavirus Food Assistance Program for Livestock

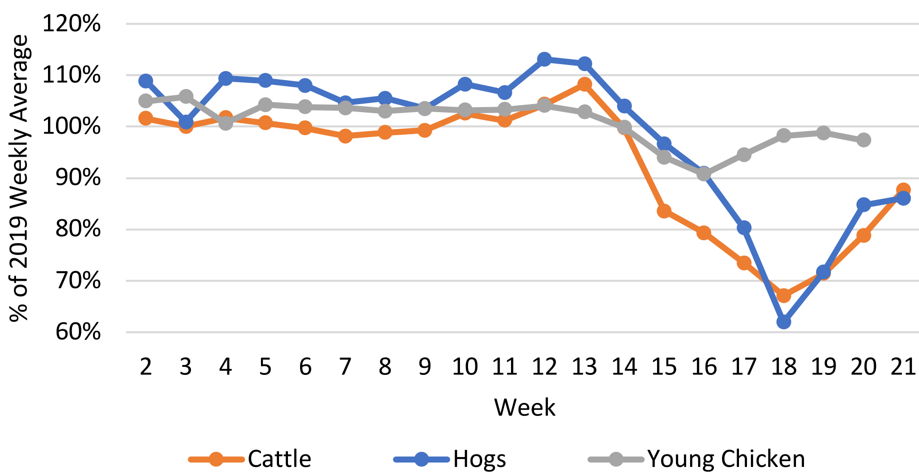
John D. Anderson

May 22, 2020

Market Update

This week's numbers suggest that the livestock and poultry sector is doing a remarkable job of achieving some semblance of normalcy in the midst of ongoing immense challenges from COVID-19.

Slaughter numbers remain down from normal, whether one defines that as year-ago levels or pre-COVID 2020 levels. However, the last couple of weeks have witnessed a remarkable recovery in processing volumes for all three of the major species. This week, cattle slaughter topped 100,000 head per day for the last three days of the week. It had been well over a month since daily cattle slaughter had attained that level. Figure 1 shows weekly cattle, hog, and broiler slaughter as a percentage of the 2019 weekly average slaughter level. While processing for cattle and hogs remains well-below the pre-COVID pace and chicken slaughter is modestly lower, the situation is dramatically improved from a month ago.



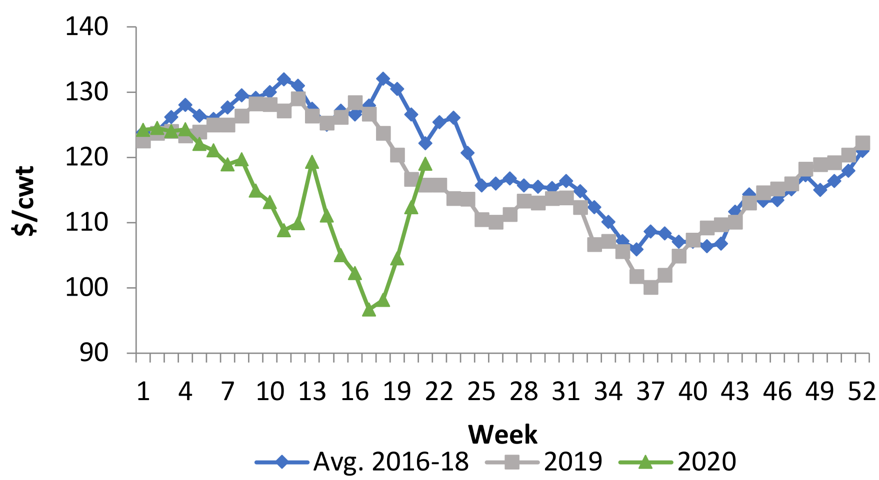
Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.

Figure 1. 2020 Weekly Cattle, Hog, and Broiler Slaughter as a Percent of 2019 Weekly Average Slaughter.

Two questions are critical for the market moving forward. First, can plants continue to remain open consistently or will recurring outbreaks necessitate waves of closures similar to what occurred last month? Clearly, that situation would present a major challenge to the market, likely resulting in extreme price volatility at all market levels. Intense effort is being made now in the management and operation of plants to avoid this outcome. Second, how close to full capacity can plants get while operating under the requirements of social distancing? That is the process that figure 1 above is illustrating. So far, the chicken sector is managing to run closer to the pre-COVID normal than are the beef and pork sectors. However, beef and pork have made great strides in increasing throughput in the last three weeks.

Market implications of the outcome of this process are clear. We have seen in the last month how the bottleneck at the processor level affects prices: downward pressure on farm prices for livestock and upward pressure on wholesale (and, in turn) retail prices for meat. The further any particular sector (beef, pork, or poultry) remains from its pre-COVID normal, the less competitive that sector will be. Market share will belong to the sectors – and the companies – that can operate the most efficiently in this new environment. The stakes in this race to adapt operations to the post-COVID reality are thus very high.

The payoff to increasing throughput in processing operations for livestock operations has been apparent in the last couple of weeks. Fed cattle prices are sharply higher from their late-April lows. The 5-Area weighted average fed steer price jumped by almost $8 two weeks ago. Last week, it increased by a similar amount. Figure 2 shows the weekly 5-Area weighted average fed steer negotiated live price (noting that data for last week are preliminary and are subject to change slightly).



Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.
Figure 2. Weekly Average Fed Steer Price: 5-Area Weighted Average, Negotiated Live

Wholesale beef prices have fallen sharply as beef production has recovered. Last week, the boxed beef cutout value averaged just over $400/hundredweight (cwt) on Friday morning – a decline of almost $75/cwt since its daily high on May 12.

In the hog/pork market, prices have not been as strongly influenced by the recovery in processing volumes. Last week's negotiated hog prices remained in the high $30s/cwt, up from mid-April lows but not much changed in the last couple of weeks. Wholesale pork prices, however, have fallen. The pork cutout value retreated by over $10/cwt over the course of last week.

In the chicken market, the effects of the recent bounce in processing are more ambiguous. Broiler eggs set have also bounced back to within a couple of percent of a year ago. Chick placements remain about 10% below year ago but should, of course, be expected to lag eggs set. Wholesale prices are a mixed bag. The broadest measure of wholesale prices, the national average broiler composite, dropped 3 cents/pound last week after rising steadily for the prior month. Several broiler pieces saw significantly higher prices last week, though: boneless/skinless (B/S) breasts and thighs and legs, in particular. It will be interesting to keep an eye on broiler pieces over the next few weeks to see how processing plant adjustments might be affecting product availability and, therefore, price. Social distancing requirements may well make it more difficult to produce some of the value-added products that are popular on the market (e.g., B/S breasts and thighs), leading to more product being diverted to whole birds or lesser-processed pieces (e.g., leg quarters). Last week, while B/S product prices continued to move higher, leg quarter prices fell by about 4%. One data point doesn't make a trend, but this issue will be worth following.

Cattle on Feed

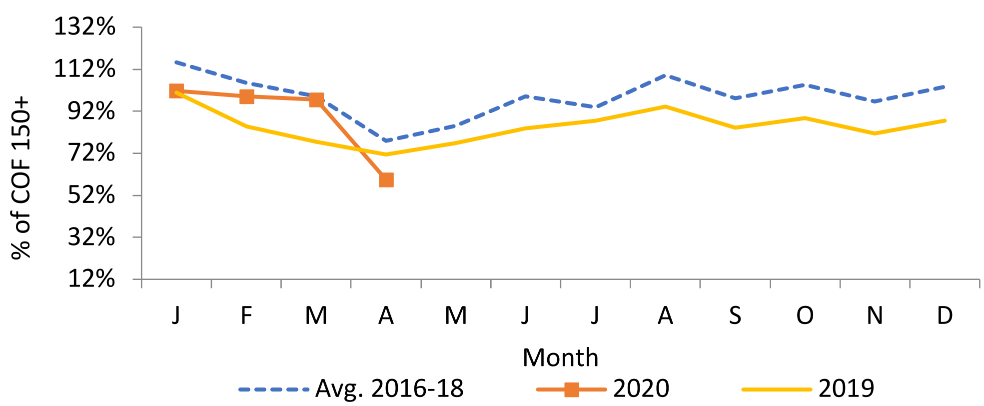
On Friday, USDA released their latest *Cattle on Feed* report. Headline numbers in the report were basically in line with market expectations.

Table 1. May 2020 *Cattle on Feed* (*COF*) Summary: Actual vs. Pre-Report Figures

	1,000 head	% of Prior Year	Pre-Report Estimates*
On Feed May 1	11,200	94.8	94.9
April Placements	1,432	77.7	77.3
April Marketings	1,459	75.7	75.0

*Source: Livestock Marketing Information Center.

April placements were the second lowest April figure since this series began in 1996. Marketings were the lowest for April over that same time period. The decline in marketings mostly reflects the difficulty that packers were having getting cattle processed in April. There certainly was not a 25 percent decline in market ready cattle. In fact, it is interesting to look at the April marketing figure as a percent of the estimated number of cattle on feed for more than 150 days. This is shown in figure 3 below.



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

Figure 3. April Fed Cattle Marketings at a Percent of Cattle on Feed for 150+ Days

Typically, pretty much all of the cattle that have been on feed for 150 days will be marketed in a given month. Often marketings are higher than the inventory of cattle that have been fed for 150 days, meaning that buys are purchasing a significant number of cattle that have been fed for a shorter time period. Last month, only about 60 percent of these long-fed cattle were marketed, indicating the magnitude of the processing plant slowdown. This backlog of cattle will keep pressure on cattle prices for some time to come.

Coronavirus Food Assistance Program

Details of the Coronavirus Food Assistance Program (CFAP), a relief program for agricultural producers to address losses related to COVID-19, were released last week. Applications for support under this program will begin being accepted at USDA Farm Service Administration offices on May 26. The program includes significant support for cattle and hog producers.

For cattle, CFAP includes two types of payments on four five classes of cattle. The payments are for 1) cattle marketing between January 15 and April 15 and 2) the highest inventory of livestock owned between April 16 and May 14. That is, the program provides a payment to address the loss in realized income on cattle sold and also the lost value on cattle owned. The five classes of cattle are 1) feeder cattle < 600 pounds, 2) feeder cattle >600 pounds, 3) slaughter cattle – fed cattle, 4) slaughter cattle – mature cattle, and 5) all other cattle (excluding cattle used for dairy production).

For hogs, the arrangement of payments is similar: one payment for lost revenue, another for lost inventory value. Two classes of hogs are specified: pigs < 120 pounds and hogs > 120 pounds.

Payment rates under the program are summarized in table 2 below.

Table 2. Livestock Classes and Payment Rates under Coronavirus Food Assistance Program

Livestock	Eligible Livestock	Unit of Measure	CARES Act Part 1 Payment Rate	CCC Part 2 Payment Rate
Cattle	Feeder Cattle: Less than 600 Pounds	Head	$102.00	$33.00
	Feeder Cattle: 600 Pounds or More	Head	$139.00	$33.00
	Slaughter Cattle: Fed Cattle	Head	$214.00	$33.00
	Slaughter Cattle: Mature Cattle	Head	$92.00	$33.00
	All Other Cattle	Head	$102.00	$33.00
Hogs and Pigs	Pigs: Less than 120 Pounds	Head	$28.00	$17.00
	Hogs: 120 Pounds or More	Head	$18.00	$17.00
Lambs and Yearlings	All Sheep Less than 2 Years Old	Head	$33.00	$7.00

Source: USDA. https://www.farmers.gov/cfap/livestock.

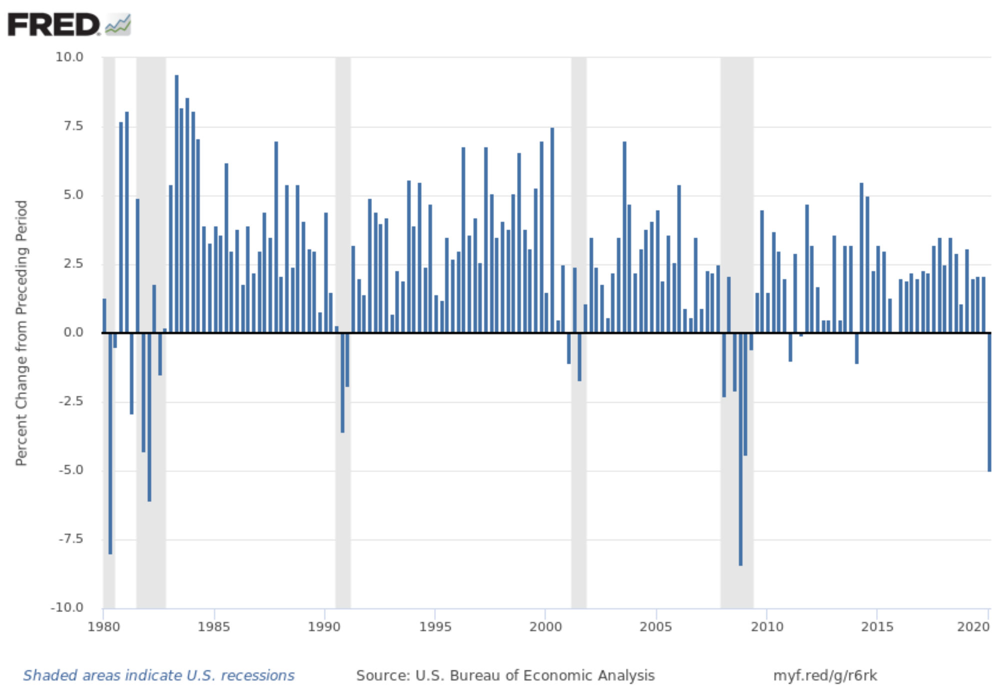
Bureau of Economic Analysis Gross Domestic Product and Personal Income and Outlays Reports

John D. Anderson

May 29, 2020

Last week, the U.S. Department of Commerce Bureau of Economic Analysis (BEA) released a couple of key reports for assessing the impact of COVID-19 on the economy.

First, on Thursday, BEA released its second estimate of first quarter (Q1) gross domestic product (GDP). BEA releases a preliminary estimate of GDP in the month following the close of the quarter. Their second estimate in the following month is a refinement based on more complete data. This second estimate shows a 5% drop in first quarter GDP. This is a relatively sharp quarter-to-quarter swing, as figure 1 shows.



Data Source: US Bureau of Economic Analysis through Federal Reserve Economic Data (FRED), St. Louis Federal Reserve Bank

Figure 1. Real Gross Domestic Product: Quarterly, Period-to-Period Percentage Change, 1980.I – 2020.I

Clearly, the quarterly swing was a large one: the third largest quarter-to-quarter drop in the past forty years. It is worth noting that the major impacts of COVID-19 didn't start until well into March – almost the end of the quarter. Two months through the second quarter, the economy is still operating far below capacity. Next quarter's drop will likewise be substantial and will, no doubt, confirm the sharp recession that will have begun in Q1 2020.

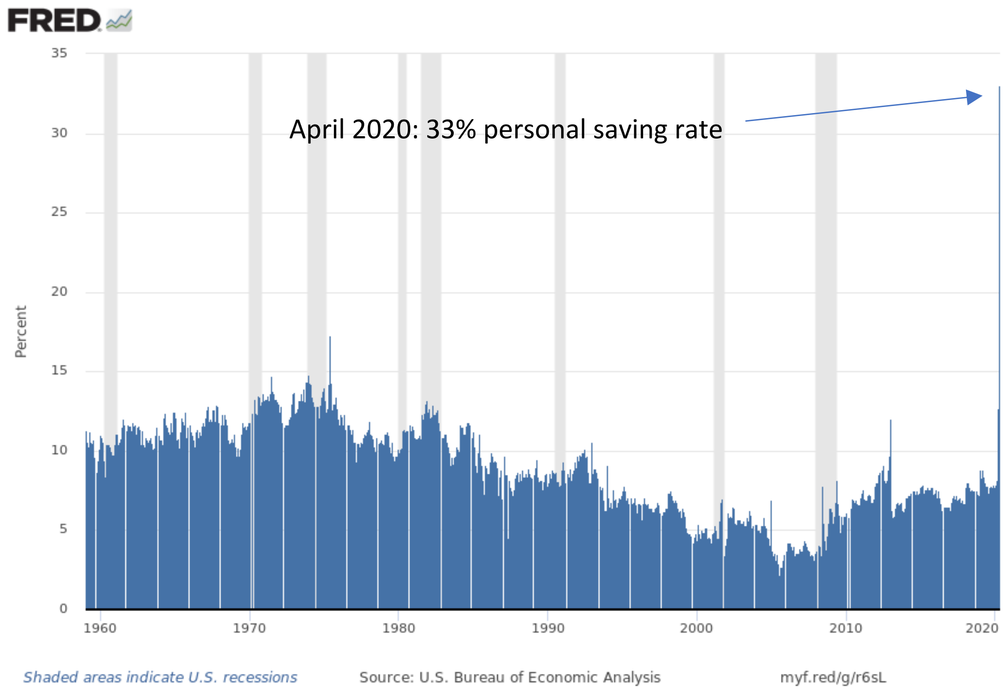
This is, to be sure, a rather unique recession – at least in the post-war era – if only for its unique trigger. But the economic data accompanying this recession is also shaping up to be quite interesting. This brings us to the second BEA report released last week: Personal Income and Outlays for April. Perhaps the most notable item in this report was personal income for April. With the economy clearly operating deep in recession territory (see previous), personal income posted a ***gain*** of 10.5% in April compared to March. What could account for this surge in income in such a down economy? Lots and lots of government relief money. Other sources of income were mostly lower, not surprisingly. For example, wage and salary income was down by a bit more than 8%. Proprietors' income was down by around 12%. This was more than offset, though, by a 91% increase in the category of government social benefits to persons. Big gains in transfers came from unemployment insurance and what BEA calls "Other," which in April would have included a considerable chunk of funds going out under the Coronavirus Aid Relief and Economic Security (CARES) Act.

Most of that relief money was hitting the bank accounts of people stuck in their homes. Personal consumption expenditures did not, consequently, follow personal income higher. In fact, personal consumption expenditures fell by 13.6% in April. Following a big jump in March when we all became preppers, real personal consumption expenditures on food fell by 17.2% in April. Note that this only includes food for at-home consumption; it does not reflect the sharp slowdown in restaurant trade. That is embedded in the "Services" category of spending, which fell by another 12% in April following a 9.3% decline in March.

If personal income was up substantially in April and person consumption expenditures were sharply lower, where did all the money go? Somewhat uncharacteristically for American consumers, it went into savings. In April, Americans saved, in the aggregate, a little over $6.1 billion – almost triple the $2.1 billion saved in March. To be fair, savings in March were actually pretty high, as by then we could all see the mess on the horizon. A better comparison is probably to the average monthly saving from 2019: $1.3 billion, less than a quarter of April's figure.

Typically, in national accounts, savings is discussed as a percent of personal disposable income: the personal saving rate. With income up and outlays down in April, the personal saving rate hit a record 33%. To appreciate how exceptional that figure is, compare April to the last ***sixty years***.

Why is this significant? Well, it suggests that the liquidity to fuel an economic recovery is in place in the bank accounts, mattresses, and coffee cans of the American public. As activity returns to normal, whenever that may be, the funds to support a return to normal spending have been laid in. This doesn't mean that the V-shaped recovery, for which we all fervently hope, is a done-deal. COVID-19 will still have something to say about that. A resurgence of cases, or of long plateau that drags on for months, would continue to hamper both supply and demand. However, as consumers decide that the time for a return to normal has come, the currency to support it seems to be on hand.



Data Source: US Bureau of Economic Analysis through Federal Reserve Economic Data (FRED), St. Louis Federal Reserve Bank

Figure 2. Personal Saving Rate: January 1960 – April 2020