

Arkansas Economic and Revenue Overview

November 2020

The State Economy

The Arkansas economy contracted severely starting late in the first quarter and fully in the second quarter. Although the state fared better than the national average in many respects, it was a deep drop in consumer and business activity from a previously healthy economic footing in 2019. Contraction was unusually deep for service sectors in travel, restaurants, recreation, and portions of health and personal services. Significant fiscal and monetary stimulus stabilized the economy contributing to a V-shaped rebound in recent months for overall measures but with continuing pressure in the hardest hit sectors and respective workers. The state unemployment rate peaked in monthly terms at 10.8 percent in April compared to 14.7 percent nationally. That survey estimate of unemployment in the overall labor market was 7.3 percent in September. The weekly insured unemployment rate among those eligible for benefits peaked at 10 percent in early May in Arkansas and has fallen to 2.6 percent in mid October, with declines in initial claims and falling numbers of continuing claims. The weekly rate in Arkansas is 2.5 percent below the national average and among the lowest in the region.

Consumer spending has been unusually strong from the combined inputs of federal stimulus, stocking up activity, pent up demand, and re-allocation of spending patterns from vacations to local and online purchasing. The fading of fiscal stimulus in the state and the prospect of a sawtooth pattern in economic activity was not evident in sales tax collections in October from prior month spending activities.

Employment levels in the state also reflect chronic areas of job loss in accommodations and restaurants, travel, temporary help, manufacturing, and state and local government. Losses in educational services and portions of the health services sector are unusual compared to past recessions. The incidence and persistence of these job losses will be major concerns without further stimulus and with additional uncertainty in COVID19 impacts.

State Revenues

The state's general revenue forecast was cut in late March and early April as a precaution for FY 20 by \$353 million and for FY 21 by \$205 million. Actual collection results for FY 20 ending June 30th produced a gain of \$369 million above the lowered base for that year and a \$3.2 million surplus above full-funding levels in all allocations of the Revenue Stabilization Law. Collection results YTD through preliminary October of FY 21 indicate similar performance above forecast in monthly reports. Net Available revenues are approximately \$230 million above forecast against a \$5.687 billion funding target at year end on June 30, 2021. Tax filing data over the past nine months indicate that revenue collections benefited from Tax Year 2019 income tax liability and payments made during the pandemic-related recession. The next tax filing period in the second half of FY 21 may not be so favorable as Tax Year 2020 liabilities are evaluated by taxpayers. Tax payments could be lower starting in January with Individual Estimated Payments and in April filings. Tax refunds could be larger than expected and partnership income could be well down from peak gains in 2019. Net collections in the

second half of FY 21 could greatly detract from first half gains. The revenue forecast for the next biennium will be presented on November 10th.

Looking Ahead

Major uncertainties remain in the face of better than expected near-term recovery in composite measures but continuing impact from unemployment, business stress, and deep, unresolved sector impacts in travel and other services. Stimulus payments from earlier federal transfers and assumed payments in the short-term outlook will fade in FY22 and 23 as the shape of recovery remains in question. Wage and salary income will likely recover to trend growth of 4.5 percent while nonwage incomes swing up in F21, down in FY22, and back in balance in FY23. Delayed or less direct stimulus programs could stretch out the pattern of transfer payments.

ECONOMIC ASSUMPTIONS

	FY 2020		FY 2021		FY 2022		FY 2023	
	Estimate	Increase %Ch.	Estimate	Increase %Ch.	Estimate	Increase %Ch.	Estimate	Increase %Ch.
U.S. GDP Nominal (Billion \$)	21,092		21,550	458 2.2%	22,529	979 4.5%	23,626	1097 4.9%
U.S. GDP Real (Billions 2012\$ Chain-Weight)	18,677		18,823	145 0.8%	19,377	555 2.9%	19,985	608 3.1%
U.S. GDP Deflator (Chain-Wt, 2012=100)	113.0		114.5	1.5 1.4%	116.3	1.8 1.5%	118.2	1.9 1.7%
U.S. CPI Price Index (1982-84=100)	257.3		262.1	4.8 1.9%	269.0	7.0 2.7%	274.4	5.4 2.0%
OIL - Avg. Dom. Crude to Refinery (\$ per barrel)	49.16		41.12	-8.0 -16.3%	51.20	10.1 24.5%	55.08	3.9 7.6%
AR. Net General Revenue (Million \$)								
AR. Net GR % of Non-Farm Personal Income								
AR. Non-Farm Personal Income (Million \$)	139,031		143,849	4817.7 3.5%	144,483	633.9 0.4%	150,287	5804.6 4.0%
AR. Wage & Salary Disbursements (Million \$)	59,873		60,837	964 1.6%	63,500	2663 4.4%	66,300	2800 4.4%
AR. Non-Farm Proprietor Income (Million \$)	6,821		6,285	-536 -7.9%	6,110	-175 -2.8%	6,634	524 8.6%
AR. Per Capita Income (\$)	45,991		47,463	1472 3.2%	47,528	65 0.1%	49,264	1736 3.7%
AR. GDP Nominal (Million \$)	129,196		132,021	2825 2.2%	136,805	4784 3.6%	142,974	6169 4.5%
AR. Employment Total Payroll (Thousands)	1,254.4		1,240.2	-14.2 -1.1%	1,258.4	18.2 1.5%	1,276.3	17.9 1.4%
AR. Employment Private Sector (Thousands)	1,045.9		1,035.7	-10.2 -1.0%	1,050.5	14.8 1.4%	1,064.0	13.5 1.3%
AR. Employment Manufacturing (Thousands)	156.9		144.9	-12.0 -7.6%	146.6	1.7 1.2%	148.3	1.7 1.2%
AR. New Car/Light Truck registrations (Thous.)	119.2		130.5	11.3 9.5%	123.6	-6.9 -5.3%	121.6	-2.0 -1.6%
AR. Retail Sales (Million \$)	42,288		45,571	3283.4 7.8%	45,870	298.6 0.7%	46,635	765.8 1.7%

U.S. Summary: IHS Markit, October 2020 baseline
 Arkansas Summary: IHS Markit, October 2020 baseline

US Macro Forecast Snapshot

	Baseline (50%)	Pessimistic (30%)	Optimistic (20%)
GDP growth	GDP contracts 3.5% in 2020 as growth in the fourth quarter slows to a 3.7% rate. Growth rebounds 3.7% in 2021 and 3.2% in 2022. GDP crosses previous peak level in late 2021	GDP falls 4.5% in 2020 as the recovery stalls in the fourth quarter. GDP grows 2.3% in 2021 and 3.5% in 2022. GDP crosses previous peak level in 2022	GDP contracts 3.2% in 2020 as fourth-quarter GDP growth scores a 6.5% rate. Growth rebounds 5.0% in 2021 and 2.7% in 2022. GDP crosses previous peak level in early 2021
Consumer spending	Spending falls 4.0% in 2020 before bouncing back 4.0% in 2021 and 3.0% in 2022	Spending plunges 5.2% in 2020 before bouncing back 3.1% in 2021 and 3.4% in 2022	Falls 3.6% in 2020 and rises 6.0% in 2021 and 2.8% in 2022
Business fixed investment	Falls 4.6% in 2020. Recovers 1.8% in 2021 and grows 4.3% in 2022	Plummets 6.1% in 2020 and falls 1.0% in 2021. Recovers 5.8% in 2022	Drops 4.6% in 2020, then increases by 2.5% in 2021 and 4.4% in 2022
Housing	Housing starts grow from 1.30 million in 2019 to 1.36 million in 2020 and edge down to 1.33 million in 2021	Housing starts grow from 1.30 million in 2019 to 1.35 million in 2020 and fall to 1.28 in 2021	Housing starts grow from 1.30 million in 2019 to 1.36 million in 2020 and inch down to 1.35 million in 2021
Exports	Fall 12.3% in 2020 before rebounding 10.0% in 2021 and 8.9% in 2022	Fall 13.1% in 2020 before rebounding 6.5% in 2021 and 11.1% in 2022	Fall 12.5% in 2020 before rebounding 9.8% in 2021 and 10.7% in 2022
Fiscal policy	CARES Act and other stimulus measures total approximately \$3 trillion through FY 2021	Same assumptions as in baseline	Same assumptions as in baseline
Monetary policy	Fed keeps the federal funds rate at the zero bound through late 2026; aggressive "quantitative easing" and liquidity enhancement measures	Fed keeps the federal funds rate at the zero bound through 2029; aggressive "quantitative easing" and liquidity enhancement measures	Fed keeps the federal funds rate at the zero bound until mid-2024; aggressive "quantitative easing" and liquidity enhancement measures
Credit conditions	Continued tightening, then gradual easing starting in 2021	Continued tightening, then gradual easing starting in 2022	Continued tightening, then gradual easing starting in 2021
Productivity growth	Rises to 3.2% in 2020 before falling to -0.3% in 2021; rebounds to 0.6% in 2022	Rises to 2.4% in 2020 before falling to -0.3% in 2021; recovers to 0.8% in 2022	Rises to 3.5% in 2020 and slips to 0.8% in 2021 and 0.4% in 2022
Consumer confidence	After a sharp decline in 2020 Q2, remains muted in Q3 and recovers moderately in Q4, continuing to climb gradually through 2023	Remains below the baseline over the entire forecast interval	Outperforms baseline over the entire forecast interval
Oil prices (Dollars/barrel)	Brent crude oil averages \$41 in 2020, \$49 in 2021, and \$58 in 2022	Brent crude oil averages \$41 in 2020, \$45 in 2021, and \$52 in 2022	Brent crude oil averages \$42 in 2020, \$51 in 2021, and \$61 in 2022
Stock markets	The S&P 500 (end-of-period) rises 3.3% in 2020, 7.1% in 2021, and 4.5% in 2022	The S&P 500 rises 2.4% in 2020 and 2021; rises 3.5% in 2022	The S&P 500 rises 3.5% in 2020 and accelerates to 9.4% in 2021 and 3.8% in 2022
Inflation (PCE)	Core personal consumption (PCE) price inflation is 1.5% in 2020, 1.9% in 2021, and 1.7% in 2022	Core personal consumption (PCE) price inflation is 1.5% in 2020, 1.1% in 2021, and 0.5% in 2022	Core personal consumption (PCE) price inflation is 1.5% in 2020 and accelerates to 2.0% in 2021 and 1.9% in 2022
Foreign growth	In 2020, Eurozone GDP declines 8.5%, while China's growth slows to 1.7%	Global economy suffers a more severe recession	Global economy experiences a recession that is less severe than in the baseline
US dollar	The real dollar depreciates from Q3 2020 through 2023 Q1 and gradually rises thereafter	Depreciates from Q3 2020 through 2023 Q1 and gradually rises thereafter	Depreciates from Q3 2020 through late 2022 and thereafter appreciates through the end of forecast