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INSIGHT

# COVID-19: U.S. Economic Effects

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This Insight discusses the current and projected effects of the Coronavirus Disease 2019 (COVID-19) pandemic on the U.S. economy. For effects on the world economy, see CRS Report R46270, *Global Economic Effects of COVID-19*, coordinated by James K. Jackson.

The economic impacts of COVID-19 since March 2020 have been large and dramatic, with impact disparities between various sectors and regions. In the United States, fear of infection, social distancing, and various states' stay-at-home orders prompted business closures and severe declines in U.S. demand for travel, accommodations, restaurants, and entertainment, among other industries. This has led to massive layoffs, furloughs, and surges in unemployment claims, with predictions for further declines in U.S. gross domestic product (GDP).

## Economic Effects of COVID-19: Currently Available Data

GDP measures the goods and services produced in the United States. As shown in **Figure 1**, real GDP fell at an annualized rate of 4.8% in the first quarter of 2020 (compared with a 2.1% growth rate in the fourth quarter of 2019). The drop was concentrated in personal consumption of durable goods and services, exports (led by a drop in services such as travel), and business investment. However, these data cover three months, only one of which was significantly affected by COVID-19. Inflation-adjusted personal consumption spending in March fell by an annualized rate of 7.3%, with declines exceeding 20% for motor vehicles, clothing, recreation services, transportation services, and food services.

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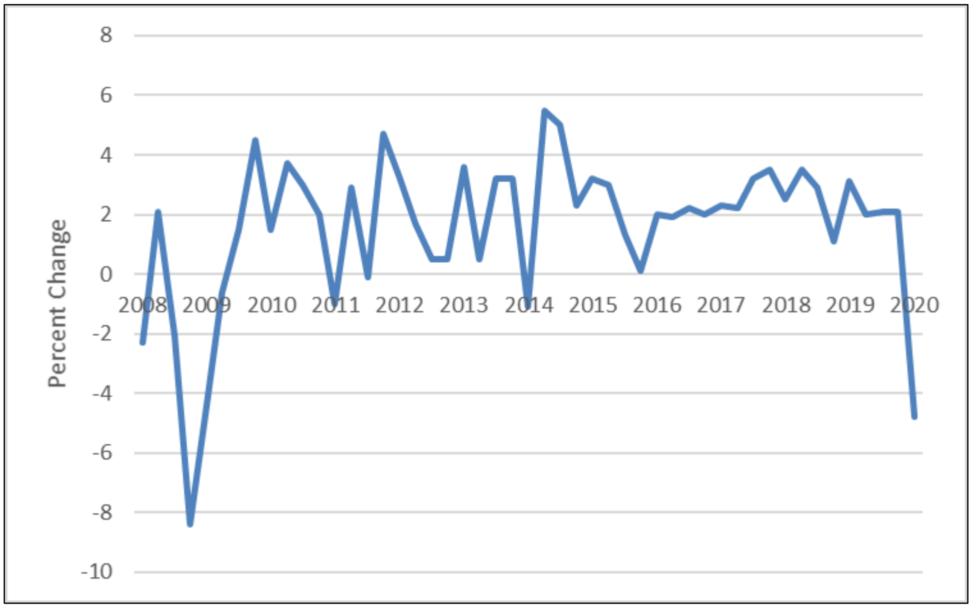
**Figure 1. Quarterly Percentage Change in Real GDP**

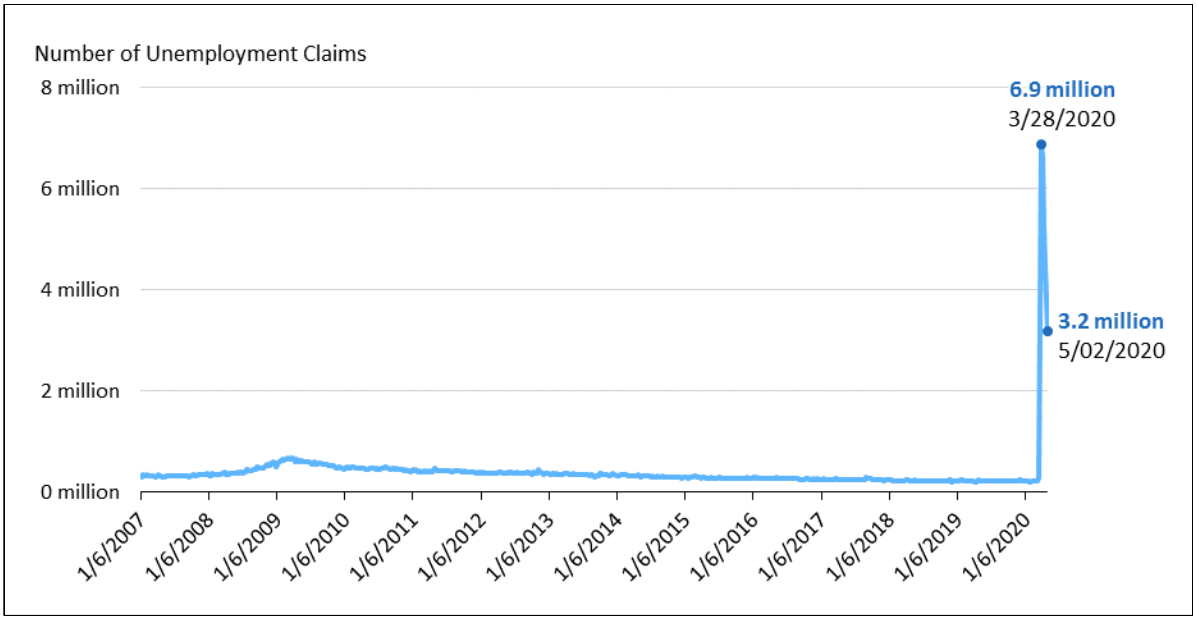
2008:Q1-2020:Q1




**Source:** Bureau of Economic Analysis.

The limited official and unofficial data suggest that the economic downturn has become more severe since the pandemic has worsened. In April, total nonfarm payroll employment fell by 20.5 million, and the unemployment rate rose to 14.7%, according to the Department of Labor. Initial unemployment claims have exceeded 3 million per week since March 21, peaking at 6.9 million on March 28 (see **Figure 2**). The previous weekly high was about 650,000 during the Great Recession of 2007-2009 (data are available since 1967). The Federal Reserve Bank of New York's weekly economic index (WEI) measures real economic activity using high-frequency data, including retail sales, unemployment claims, tax collections, fuel sales, steel production, and electricity consumption. That index shows a dramatic drop in economic activity due to the pandemic. For the week ended May 7, the WEI, as scaled to four-quarter GDP growth, fell by 11.9%. (By comparison, the level of economic activity under the WEI was a positive 1.6% growth for the week ending February 29.) The WEI has been contracting since the week of March 21.

**Figure 2. Initial Unemployment Claims**
Weekly, 2007-2020




**Source:** Department of Labor, downloaded from Federal Reserve Bank of St. Louis, FRED database.

# Economic Effects of COVID-19: Future Projections

Projections for growth and employment remain bleak. The second quarter is expected to be worse than the first (which only included one severely affected month), as business closures and layoffs accelerated in April. On April 29, 2020, Federal Reserve Chair Jerome Powell warned in a speech that the economic effects of COVID-19 are severe and that the "depth and the duration of the economic downturn are extraordinarily uncertain and will depend in large part on how quickly the virus is brought under control."

The Congressional Budget Office (CBO) last month projected that the unemployment rate will average 14% during the second quarter of 2020 and 11.4% during calendar year 2020, before falling slightly to 10.1% in 2021. By comparison, unemployment during the Great Depression peaked at about 25% in 1933. Unemployment during the Great Recession peaked in October 2009 at 10.0%.

CBO projected GDP will fall by 5.6% in 2020, before growing by 2.8% in 2021. The recovery from the pandemic is projected to be gradual—GDP at the end of 2021 will remain lower than it was in 2019 and well below prior projections, CBO said. Quarterly growth rates are typically reported on an annualized basis; by that measure, CBO projected that second quarter GDP would contract by the equivalent of 40%. This projected decline is about four times larger than the largest quarterly contraction in GDP—10% in the first quarter of 1958—since 1947, when quarterly data first became available. The largest quarterly decline in the Great Recession was 8.4% in the fourth quarter of 2008. A severe economic contraction is also projected globally, which is likely to suppress demand for U.S. exports. In April, the International Monetary Fund (IMF) projected the U.S. economy and global economy would shrink by 5.9% and 3%, respectively, in 2020, which it described as "much worse than during the 2008–09 financial crisis."

The primary factor that will determine the duration and severity of the downturn is how long the pandemic will last. If it ends quickly, the economy may rebound quickly once businesses reopen (which commentators call a "V-shaped recovery"). CBO projects that the economy will grow by 23.5% on an annualized basis in the third quarter and 10.5% in the fourth quarter. This is a marked contrast to the length of the Great Depression (featuring recessions of 43 and 13 months) and Great Recession (18 months). Its projection, however, was based on the assumption that "the degree of social distancing is projected to diminish by roughly 75 percent, on average, during the second half of this year relative to the degree in the second quarter and then to further diminish in the first half of next year." The IMF also predicts that, assuming the pandemic's effects receded in the second half of 2020, the global economy could grow by 5.8% in 2021 as economic activity resumes if helped by government support. However, the IMF noted that "the risks for even more severe outcomes, however, are substantial." If social distancing and business disruptions persist or there is a second wave of COVID-19 infections, the downturn could be longer lasting, deeper, and lead to more permanent job losses and business failures.

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