



COVID-19: How Quickly Will Unemployment Recover?

July 17, 2020

Because of effects of the Coronavirus Disease 2019 (COVID-19) pandemic, the United States has seen both high unemployment levels and record rates of change in those levels. This has made it difficult to forecast unemployment from one month to the next. This Insight discusses the current state of unemployment, how unemployment might change over the next few years, and what those changes would mean for the economy.

Current Outlook

COVID-19 and the subsequent public health crisis led to precipitous increases in unemployment and underemployment in April, May, and June 2020. **Figure 1** contrasts the official U3 unemployment rate—unemployed workers as a percentage of the labor force—with the U6 rate, which also includes those working part-time for economic reasons and discouraged workers. At the height of the Great Recession of 2007-2009, the U3 rate reached 10% compared with a high of 14.7% in April or 11.1% in June. (For further explanation of these rates, see CRS In Focus IF10443, *Introduction to U.S. Economy: Unemployment*, by Lida R. Weinstock.)

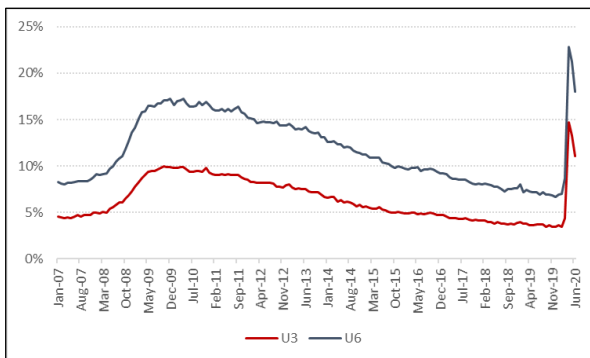
Analysis of changes in employed workers may offer additional, [and in some situations more stable](#), insights on the state of the labor force. **Figure 2** shows that the number of employed workers as a percentage of the non-institutionalized population decreased substantially during the pandemic. The employment-population ratio hit a low of 59.4% during the Great Recession compared with 51.3% in April.

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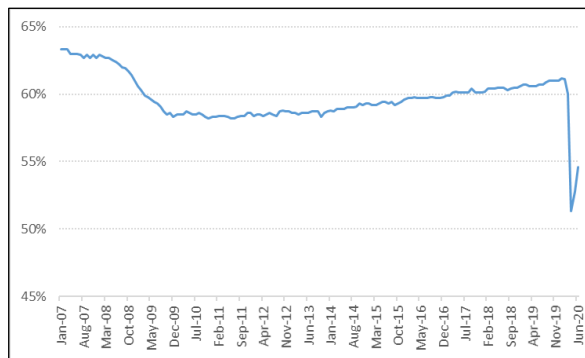
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Figure 1. Unemployment



Source: U.S. Bureau of Labor Statistics (BLS).

Figure 2. Employment-Population Ratio

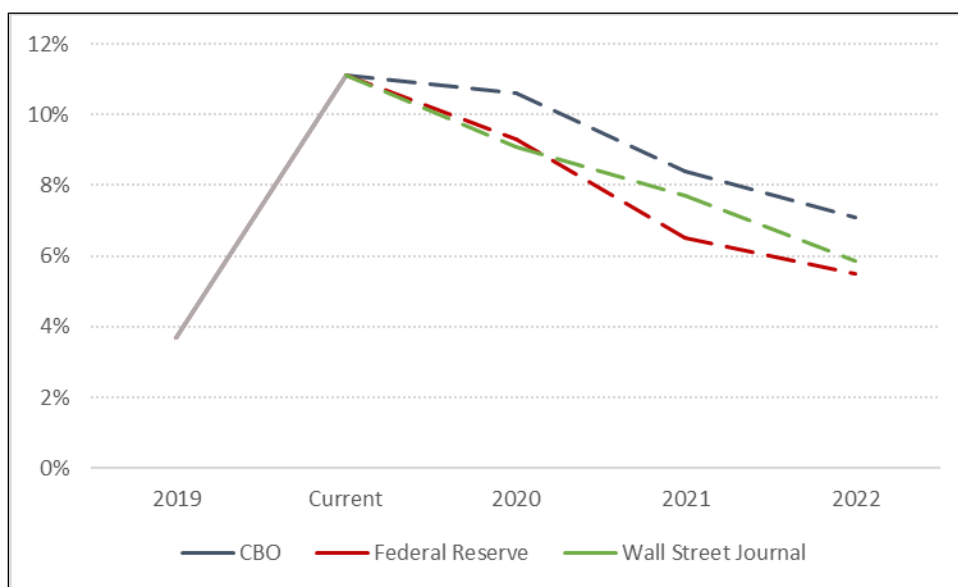


Source: BLS.

Unemployment Projections

Several government agencies and private companies forecast future unemployment levels along with other economic indicators, such as gross domestic product (GDP) growth and inflation. Current projections show persistently high unemployment for the next few years. **Figure 3** compares median annual unemployment projections from the Congressional Budget Office (CBO), the Federal Reserve, and the *Wall Street Journal*. The *Wall Street Journal* surveys more than 60 economists, which provides a sense of private-sector sentiment. CBO unemployment forecasts are consistently higher than others; however, even given the large amount of uncertainty in the economy, the forecasts of all three organizations are fairly similar. **Figure 3** suggests consensus from both the public and private sector that the effects of COVID-19 on unemployment will be long lasting, despite the significant gains to employment seen since April.

Figure 3. Unemployment Rate Projection Comparison



Source: Congressional Budget Office (CBO), Federal Reserve, Wall Street Journal.

Notes: The Federal Reserve and the Wall Street Journal collect individual projections from different groups of experts. The Federal Reserve reports the median projection and the Wall Street Journal reports the average projection.

Economic forecasts include a degree of uncertainty even under more normal circumstances, as they are dependent on factors such as technological development that are volatile and difficult to measure. Despite the consensus of current projections, there is a large amount of uncertainty in this recession; economists are relying on public health officials for predictions on the future course of the pandemic that could, in turn, impact the unemployment situation. In addition, consumer sentiment is something that is difficult to predict, especially in these unprecedented circumstances; even if restrictions are lifted, people may still be reluctant to participate in the economy in the way they would have prior to the public health crisis. Complicating matters is that restrictions and sentiment will vary from state to state. As events continue to unfold and more complete data become available for the second quarter, projections could continue to change as well.

Table 1 illustrates the amount of uncertainty facing the economy presently. The Federal Reserve projections are put together by surveying board members and bank presidents, who separately provide estimates based on individual assumptions about monetary policy. As the table shows, the range of these unemployment projections was much larger in June 2020 than in December 2019, meaning that projections varied by individual more during the recession than prior to it. For example, in December 2019, the range of projections only spanned 0.7 percentage points for 2021 whereas in June 2020 the range of projections spanned 7.5 percentage points. Further illustrative of the uncertainty, in June the most optimistic projection shows a rate of unemployment very close to pre-COVID-19 levels by 2021 whereas the most pessimistic projection predicts the unemployment situation in 2021 will remain worse than the peak rate of the Great Recession.

Table 1. Range of Federal Reserve Unemployment Projections

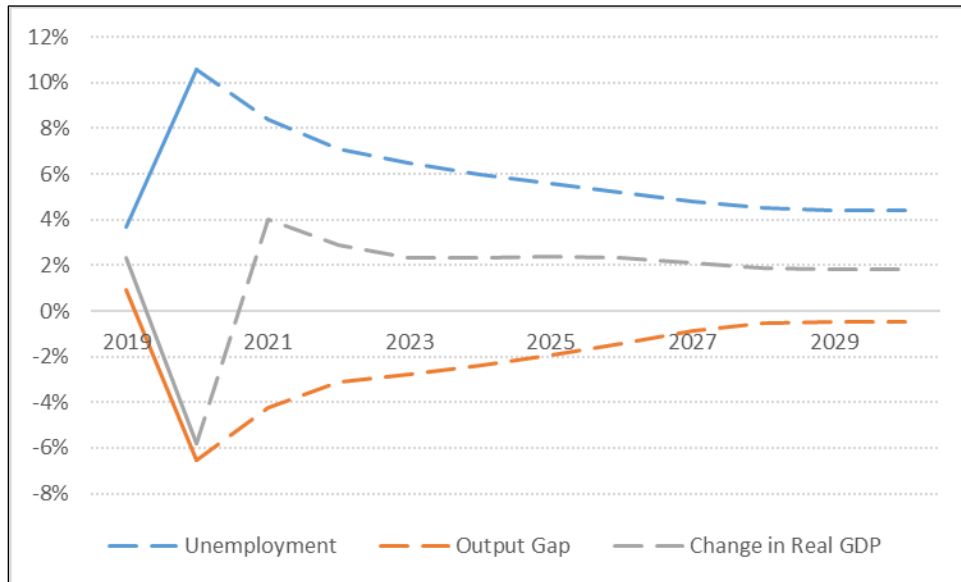
	2020	2021	2022
June 2020 Projections	7.0 – 14.0	4.5 – 12.0	4.0 – 8.0
December 2019 Projections	3.3 – 3.8	3.3 – 4.0	3.3 – 4.1

Source: [Federal Reserve](#).

When Will the Economy Reach Full Employment?

Many commentators have speculated about the potential for a [V-shaped recovery](#) from the COVID-19 recession. The characteristics of this recession are unusual in that it was not caused by underlying financial or economic problems. That distinction may suggest the opportunity for a quicker recovery once the virus has been contained. Indeed, projections (such as CBO's) for real GDP growth appear to largely follow this narrative (see [Figure 4](#))—real GDP is projected to grow over 4% in 2021 and [reach pre-COVID levels by 2022](#). Even if this occurs, however, it would not be enough to return the economy to full employment quickly—both unemployment and the output gap, which are closely related, are projected to take much longer to return to non-recessionary levels. The [output gap](#) measures the difference between actual and potential GDP. As [Figure 4](#) shows, the output gap grew very quickly during the pandemic, and CBO projects that the economy will be functioning below full potential through 2030 and, as such, the economy will also not see a return to full employment during this decade either. Even in the scenario of a V-shaped recovery, the United States is likely to feel the economic effects of COVID-19 for years to come.

Figure 4. Trend of CBO Unemployment and Growth Projections



Source: CBO.

Note: Changes in real GDP are measured relative to projections from the preceding year.

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