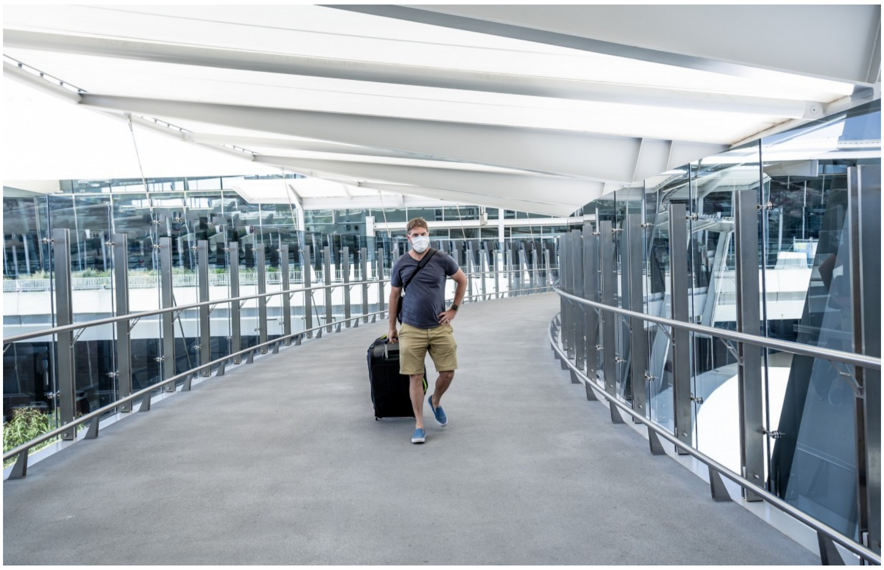
Border boost for the US economy of 0.75% of GDP

The US has announced that from November fully vaccinated foreign travellers from previously restricted countries will be allowed to fly in. This is great news for hard-pressed sectors of the economy and should re-accelerate the recovery in US employment while boosting GDP by potentially more than 3/4 of a percentage point



Passenger at a US airport

US allows the return of vaccinated tourists

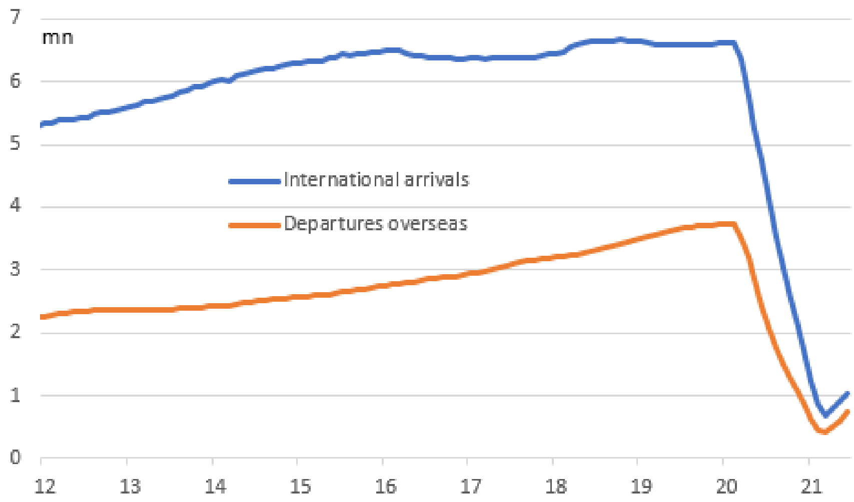
The US' surprise decision to re-open borders to fully vaccinated foreign travelers from Europe, Brazil, China, India and South Africa has been warmly welcomed by the travel industry, foreign governments and leisure and hospitality groups. It will also provide a major boost to the US economy.

The restrictions, which were initially introduced by President Trump on visitors from China quickly spread to other nations before the pandemic grounded international travel globally. However, while other countries started to re-open to international visitors earlier this year the US was far more cautious and continued to require visitors from the restricted list to either apply for an exemption or to spend 15 nights in a “third country” (and testing negative for Covid) as a bridge to getting into the US.

Just a little public service note here that the rules say 14 days, but if you do that and turn up at the airport the airline won't let you on the plane as I can personally attest. They want you to have done 15 nights (your first night counts as night zero) – just a little tip for any of you brave enough to make the trip before November…

Anyway… From November those restrictions are lifted and any foreign traveller who is fully vaccinated can visit subject to testing and contact tracing requirements.

Monthly US international travel flows (12M moving average)



Source: Macrobond, ING

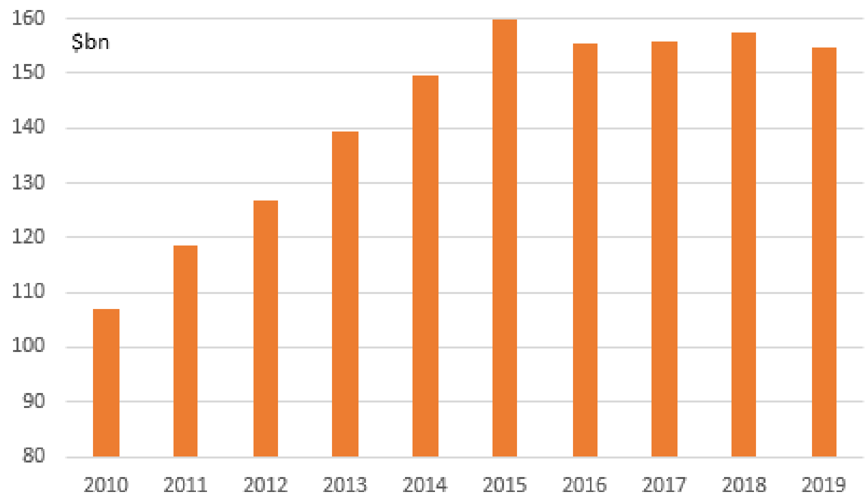
An extra $140bn of spending heading to the US

Looking at the numbers we can see that foreign arrivals totaled 79.4mn in 2019 and plunged to just 9.8mn in 2020 – far fewer Americans travel overseas. Looking at the run rate through the first half of 2021 we were in line for a full year figure of 15.3mn, so an improvement, but it should turn out to be even higher now and much more so for 2022.

This is hugely important for the US economy given the US Travel Association estimates that foreign travellers spent $154.6bn in 2019. Based on a similar spend per trip, this implies that spending fell to just $19.2bn in 2020, a drop of $135.4bn. In reality, the fall is likely to have been even larger given the lack of options on which to spend money once here, given Covid restrictions.

Assuming we get a full recovery in foreign visitors next year (fewer business travellers will likely be offset by more tourists as people make up for lost time) an extra $140bn or so of spending would directly boost US GDP by around 0.6 percentage points.

Annual spend by international travelers to the US



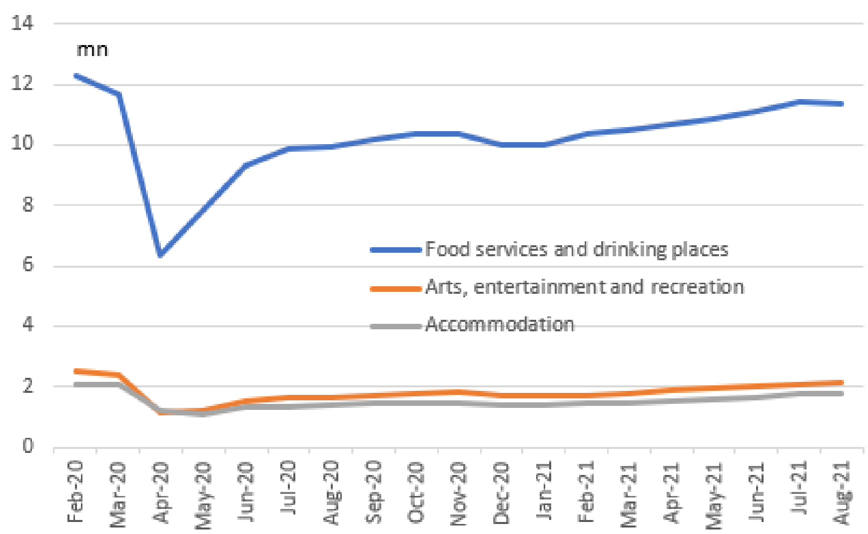
Source: US Travel Association

A boost for jobs and domestic spending too

The broader impact on the economy will be even greater than that. The money that is spent by tourists is focused on accommodation, eating and drinking out, car hire, recreation and entertainment industries – sectors of the economy that continue to lag the broader recovery.

Employment in the US is still down 5.33mn nationally, equivalent to 3.5% fewer people being in work than before Covid struck. For leisure and hospitality it is down 1.7mn or 10% of pre-Covid employment levels! Accommodation (still down 16.9% on pre-Covid employment levels) and arts, recreation and entertainment (down 15%) remain particularly hard hit.

US employment levels (mn)



Source: Macrobond, ING

A stimulus that can lift GDP by 0.75pp

Today's decision will provide a major boost to these sectors, which will lead to more jobs, higher incomes, more spending by these workers and importantly for the government, more tax revenue. Consequently with multiplier effects this could potentially bring the boost to the economy from today's decision to above three-quarters of a percentage point in 2022.

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