US Daily: Coming to America: The Effect of Lifting Travel Restrictions on Spending and Employment

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- The Biden administration announced on Monday that it will lift travel restrictions for fully-vaccinated visitors from 33 countries who have so far been banned from entering the US, starting in November.

- Based on the partial recovery in arrivals to the US from a few countries not subject to restrictions, we estimate that the end of the travel ban will restore another 10-15% of the pre-pandemic spending by tourists and other nonresidents by the end of 2022Q1, which would add about 0.2pp to GDP growth in 2021Q4 and 2022Q1. If most of the remaining gap in tourist spending then closes by the end of 2023, the remaining rebound would boost quarterly annualized growth by another 0.1pp in each quarter from 2022Q2 through 2023Q4.

- Using the empirical relationship between spending and employment in travel-related industries and our estimate of the share of travel-related spending that is typically supported by international tourists, we estimate that lifting travel restrictions will generate about 100k jobs, or 15-20k jobs per month. Assuming most of the remaining gap from depressed tourist spending then closes by the end of 2023 would imply a further gain of about 300k jobs in these industries, or 10-15k jobs per month.

Coming to America: The Effect of Lifting Travel Restrictions on Spending and Employment

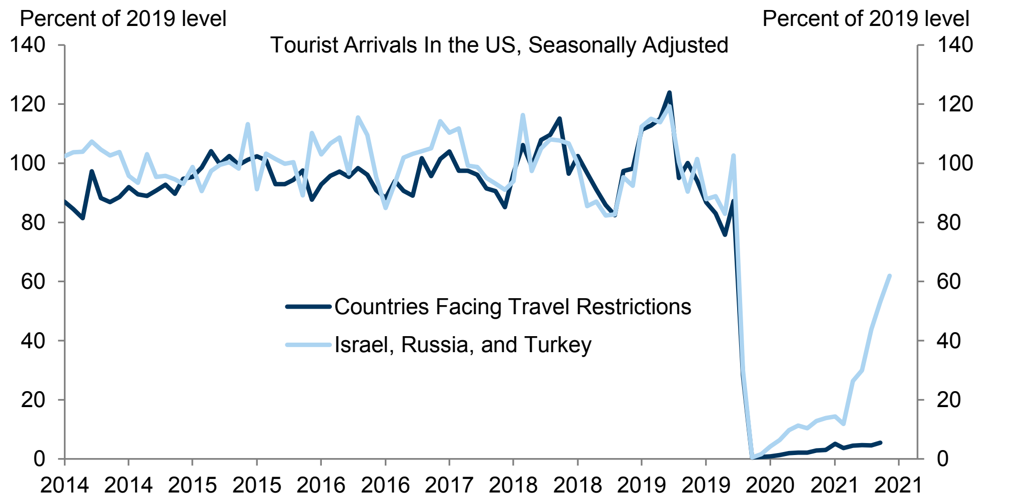
The Biden administration announced on Monday that it will lift travel restrictions for fully-vaccinated visitors from 33 countries who have so far been banned from entering the US, starting in November. The countries affected by expiring travel restrictions include the European Union, the UK, China, Iran, South Africa, and Brazil.

Travel bans have kept the number of tourists entering the US from countries subject to restrictions extremely low. Exhibit 1 compares tourist arrivals to the US from the European Union, the UK, China, South Africa, and Brazil—all currently affected by travel bans that will be lifted for vaccinated travelers in November[1]—to arrivals from Israel, Russia, and Turkey—which have not been subject to travel bans. We restrict the comparison to Israel, Russia, and Turkey for two reasons. First, we suspect that there are fewer travelers from these countries flying into the US specifically to get vaccinated, compared to regions like South and Central America, where tourist arrivals to the US are much higher as a share of the pre-pandemic level. Second, these countries have requirements for isolation and quarantine of citizens returning from the US that are comparable to those in newly-exempted countries, unlike countries with more stringent regimes like Australia or Japan.

While US tourist arrivals from countries currently facing restrictions stand at only 5% of their pre-pandemic level, arrivals from our comparison group of countries without travel restrictions have recovered to roughly 60% of their pre-pandemic level. We therefore assume that arrivals from the countries no longer facing a ban will also recover to about 60% of their pre-pandemic level by the end of 2022Q1.

[1] The administration has indicated that it will accept vaccinations approved for emergency use by WHO. Since this includes China's Sinovac vaccine, but not the Covaxin or Sputnik V vaccines used in India, and since only 15% of adults in India are fully vaccinated, we include China but exclude India in the analysis that follows.

Exhibit 1: Tourist Arrivals to the US from Banned Countries Are Just 5% of Their Pre-Pandemic Level, Versus 60% in Countries That Do Not Face US Travel Restrictions



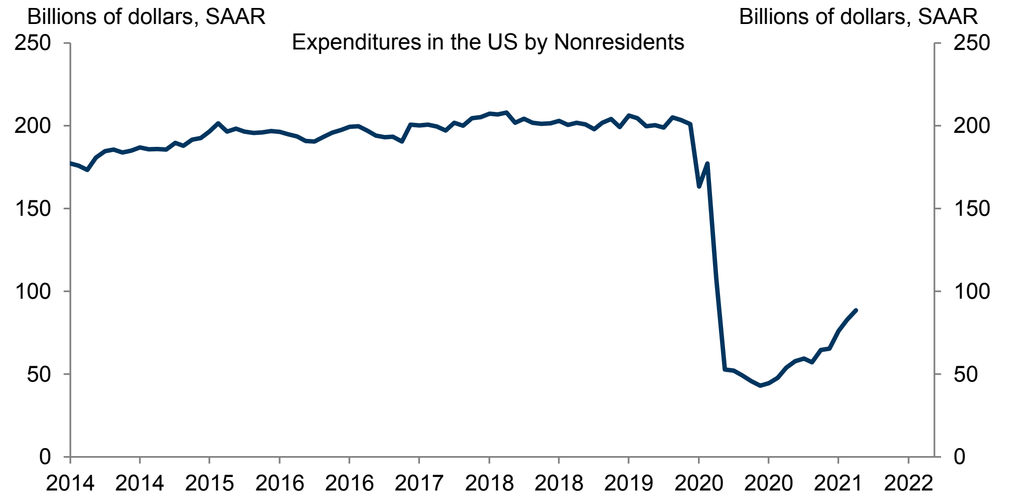
Source: National Travel and Tourism Office, Goldman Sachs Global Investment Research

To estimate the effect on spending, we use data on nonresident expenditures in the United States from the national accounts. We estimate the newly-exempted countries' share of total nonresident spending using data on US travel and transportation services exports by country. Because travelers on student visas were already exempted from entry restrictions, we subtract half of education-related travel services exports.

We estimate that the newly-exempted countries account for 40% of US tourist spending. Because restrictions will only be lifted for fully-vaccinated travelers, we multiply this by the share of fully-vaccinated adults in these countries, which implies that 24% of potential tourist spending is affected by the removal of the ban. Based on our assumption above that about half of this spending will recover quickly, say by the end of 2022Q1, we estimate that US nonresident spending will increase by about 12% of its pre-pandemic level as tourism rebounds following the end of the ban.

Since nonresident spending before the pandemic accounted for roughly 1% of GDP, this suggests a one-tenth boost to GDP from lifting travel restrictions. Assuming that this partial normalization happens over 2021Q4 and 2022Q1 implies a 0.2pp boost to quarterly annualized GDP growth in each of these quarters. If most of the remaining gap in tourist spending then closes by end-2023, the remaining rebound would boost quarterly annualized growth by another 0.1pp in each quarter from 2022Q2 through 2023Q4.

Exhibit 2: Spending by Tourists and Other Nonresidents Remains Depressed by About $150bn Annualized, About 0.7% of US GDP



Source: Bureau of Economic Analysis, Goldman Sachs Global Investment Research

How many jobs will the end of the travel ban bring back? We estimate that a 1% increase in spending in travel-related industries is associated with a 0.4% increase in employment in those industries. Since these industries employed about 17.5mn people in total before the pandemic, nonresident spending accounted for 12% of total spending, and we estimate that 12% of that will quickly recover, we estimate that ending the travel ban will bring back about 100k jobs, or 15-20k jobs per month (Exhibit 3). Assuming most of the remaining gap from depressed tourist spending then closes by end-2023 would imply a further gain of about 300k jobs in these industries, or 10-15k jobs per month.

Exhibit 3: We Estimate That the End of the Travel Ban Will Back About 100k Jobs in Travel-Related Industries, Where a 2.3mn Employment Gap Remains

Source: US Bureau of Labor Statistics, Goldman Sachs Global Investment Research

The US Economics team thanks Manuel Abecasis for his contributions to this piece.

Disclosure Appendix

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