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America Is Reopening, and Biden Is Throwing Fuel On The Fire

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When Republican Texas governor Greg Abbott announced last week that it was "time to open Texas 100pc" by abolishing the state's mask mandate and allowing full business reopening, US president Joe Biden slammed what he described as "Neanderthal thinking". It was more difficult for the Democratic president to criticise one of his party's own governors, Connecticut's Ned Lamont, who followed suit. Lamont announced a few days later that his state would lift all business capacity constraints too, while re-allowing commercial gatherings of up to 100 people indoors.

Democrats would say Connecticut's rule changes are different, as they maintain mask mandates, regular cleaning, and the closure of booze-only bars. But the direction of travel is clear: the American economy – the global powerhouse – is reopening again, with four states removing restrictions entirely and 40 more having eased them in their last rule changes. And just as the American people drove last spring's shutdown, politicians find themselves responding to big shifts in voluntary behaviour again.

Data show Americans in every state spent more time out of the home over the last seven days than the week before. Google's mobility reports show sharp upticks in commuting and time spent at workplaces after a quiet winter. In fact, last week saw the highest level of average visits to workplaces since the pandemic began in late March 2020.

Restaurant activity is rebounding too, as confidence to get out and socialise expands with the US vaccine rollout continuing. Seated diners through OpenTable might still be down 37pc this year compared with last, but that's the lowest fall seen since September. Indoor dining is as packed as can be even in the swanky parts of Washington DC, despite this city being the most cautious place in the country. In more open states, such as Florida, restaurant and hotel activity is not too far from normal levels already, albeit with more opportunities for eating outside.

All this is beginning to be reflected in job postings. The website of economist Raj Chetty's Opportunity Insights Team shows a sharp uptick in US adverts for leisure and hospitality positions. Just a month ago they were still down 31pc on January 2020; now they are down just 4pc. Significantly, the roles surging are those that require minimal or only some education. This suggests low-paid service sector jobs may be set to make an extraordinary bounce-back as people embrace their old habits and governors relax restrictions.

There will be Covid-19 setbacks as the reopening continues, of course, and economic activity will be sensitive to local outbreaks. If it were up to US public health officials, they would probably prefer UK-style lockdown measures to still be in place as the vaccines continue to work through, to maximise the number of lives saved. But even they are beginning to change their tune as the American public eases up.

Biden's chief medical adviser, Dr Anthony Fauci, a few weeks ago suggested that even vaccinated people should refrain from changing their lives for now. He was criticised for his extreme cautiousness possibly even dissuading people from getting the jab, with demands rising for new government guidance for the vaccinated. This week, the US Centre for Disease Control delivered it, advising that vaccinated people could now see other vaccinated people freely and mix with another household without masks.

While it has taken time to ramp up, this mobility rebound comes alongside a now motoring US vaccine rollout. As of now, 94m doses have been administered, of which over 60m are a first dose (a lower proportion than in the UK, given the US is sticking to the trialled two-dose intervals). Yet the US is currently vaccinating at a rolling average of 2.1m doses per day, with huge batches expected to feed through as vaccine orders are delivered. The country, then, seems to be on a clear glide path to normalisation.

This all makes it an extraordinary time for the US Congress to throw fuel on the fire, pumping out another $1.9 trillion in Covid-19 relief, just a few months after a massive $900bn (£645bn) of "stimulus" – a combined 13pc of GDP injection. Households are already sitting on an estimated $1.6 trillion of excess savings, due to a combination of state largesse, a stronger than expected rebound last summer, and an unwillingness or inability for consumers to spend on the activities they would usually want to over the past year.

As restrictions are eased, the opportunities for pent-up demand to go wild are therefore huge, although highly uncertain. Whether the US economy has the capacity to absorb all that demand to avoid significant price rises is another question. This won't be helped by measures such as extremely generous unemployment insurance benefits of $300 per week in the Biden stimulus, which will act as a disincentive for job search just as the opportunities for employment return.

The OECD, however, forecasts a sharp bounceback in US real GDP. In fact, it believes the American economy will actually be bigger by the end of 2022 than it projected for that time back in November 2019. This compares with its estimate of the UK economy being 4pc smaller than originally forecast.

Whether that comes to be is extraordinarily difficult to say. We have no idea what the lasting consequences of this crisis will be on US entrepreneurship, work patterns, or consumption habits. If these are significantly altered, we may see constrained growth as it takes time to reallocate resources and workers across sectors and places.

But all the indications of the last few weeks are that we will find out rather soon. The American people appear to be deciding that the pandemic – or at least the constraints it has put on them – should now end

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