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Research Briefing | US

Biden's American Jobs Plan offers lots of fuel for growth

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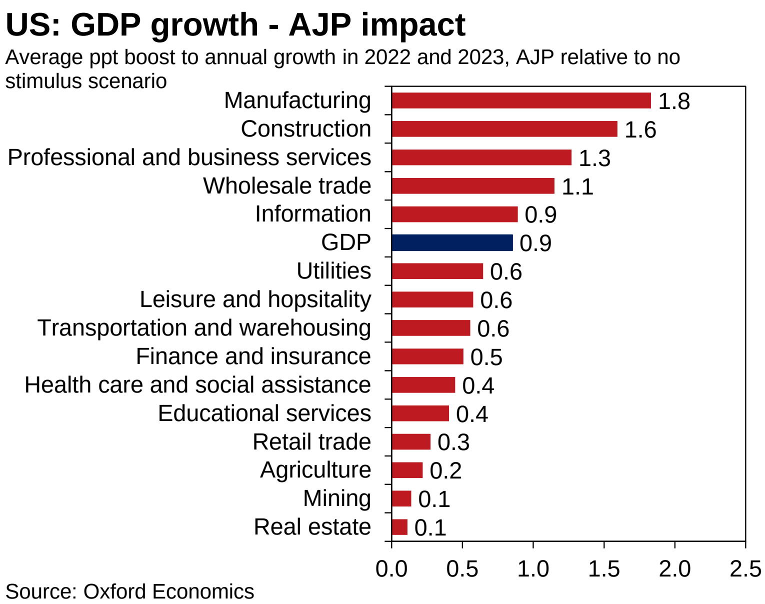
- **As proposed, President Joe Biden's American Jobs Plan would brighten the US industrial and regional outlook. Model simulations indicate the stimulus could benefit the manufacturing and construction sectors most, raising their output around 3.5% by the end of 2023.**
- **Within services, professional and business services stand to gain the most as the AJP's push to upgrade transportation and communication networks, increase R&D and green investment, and bolster US manufacturing would generate demand for engineers, architects, consultants, and scientists.**
- **Among the largest state economies, California, Georgia, Michigan, and North Carolina would benefit the most. These states would experience a 1ppt increase in output growth in 2022 and 2023. They wouldn't only get a lift from a mix of greater infrastructure spending and electric vehicle production, but they would also get spillover benefits from stronger professional and business services and high-tech activity. At the metro level, activity in the San Francisco Bay area would receive the strongest gains.**
- **The Northern Plains states and West Virginia would receive the smallest boost to output, but they would still experience faster growth by 0.6ppts-0.7ppts in 2022 and 2023. An outsize dependence on agriculture and mining – which the AJP will benefit minimally – is the main reason these states would lag.**

Figure 1: Biden's American Jobs Plan would deliver a broad boost across industries



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Manufacturing would benefit most

Our modeling indicates that the proposed American Jobs Plan (AJP) would deliver the greatest boost to the manufacturing industry, propelling faster growth by about 1.8ppts on average in 2022 and 2023 (**Figure 2**). This stimulus would also create an additional 290k manufacturing jobs by year-end 2023 relative to a no-stimulus scenario.

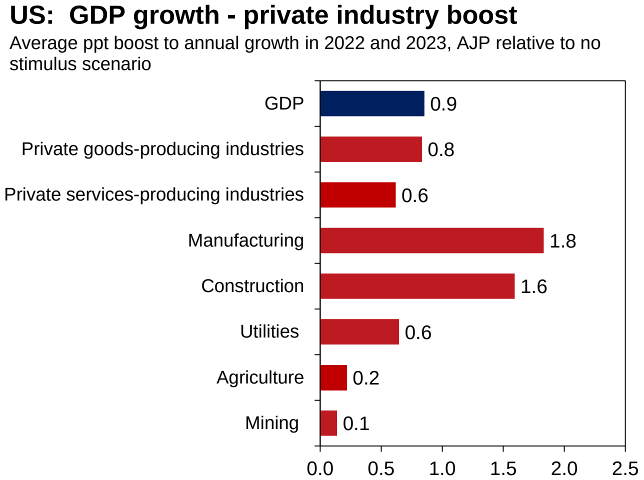
Within manufacturing, innovations in transportation, clean energy, medicine, biotech, and telecommunications would deliver the biggest boon. Motor vehicle production stands to benefit most, as the AJP pushes to revamp transportation and increase vehicle electrification (**Figure 3**). Primary metals and wood products output growth would rise 2.5ppts-2.6ppts on average in 2022 and 2023. The AJP's goal of revamping and retrofitting homes and commercial buildings, updating electric and water infrastructure, and providing high-speed internet to every American would deliver material, positive impacts for these manufacturing industries.

With much of the AJP directed toward revitalizing America's ailing infrastructure, the construction industry would also record among the biggest gains (**Figure 2**). The AJP would replenish an infrastructure funding gap and rebuild highways, railroads, bridges, and tunnels (**Figure 4**). Creating greener transport for urban mass transit and connecting cities via high-speed rail would be among the initiatives that lift construction growth 1.6ppts higher in 2022 and 2023. Residential construction would also strengthen as faster income growth boosts housing demand and induces stronger homebuilder activity. All this would create an additional 275k construction jobs by year-end 2023.

The AJP would also strengthen services, most significantly professional and business services. Activity in the professional and business services industry would grow 1.3ppts faster on average in 2022 and 2023. Within this industry, the professional, scientific, and technical services industry (which includes professions such as architects, engineers, consultants, and scientists whose skills will be needed to meet the AJP's goals) stands to create an additional 170k jobs.

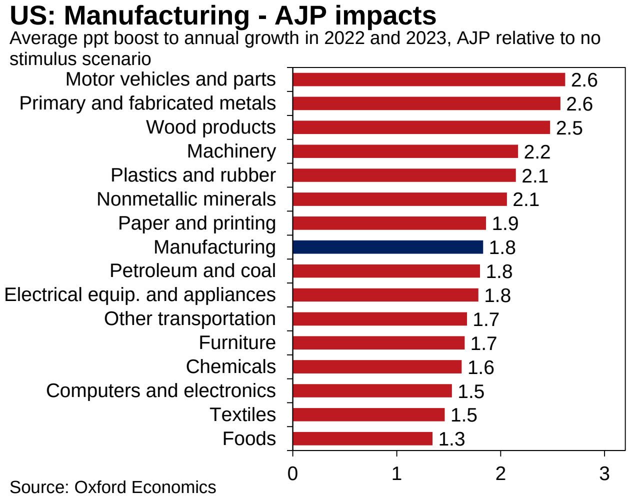
Notably, high-income earners wouldn't be the sole beneficiaries. Rising earnings among lower-wage manufacturing and construction workers – who have a higher marginal propensity to spend – would induce greater consumer outlays and propel a stronger economy.

Figure 2: American Jobs Plan would benefit goods-producing industries more than services



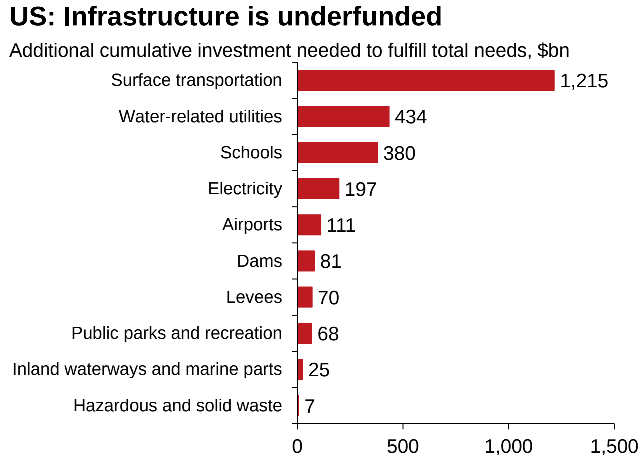
Source: Oxford Economics

Figure 3: Transportation and infrastructure-related manufacturing would benefit most



Source: Oxford Economics

Figure 4: American Jobs Plan would ameliorate the infrastructure funding gap



Note: Based on current trends, 2020 to 2029
Source: American Society of Civil Engineers/Oxford Economics

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Regional economies would also get a lift

The AJP would lift economies across the country (**Figure 5**). Repairing and enhancing [dilapidated infrastructure] would fuel faster growth across states, and regions with concentrations of professional and business services and high-tech activity. The AJP's capital-intensive nature means the employment increase would be milder than the rise in output (**Figure 6**). These dynamics support our view that US productivity is poised to grow at an [above-trend] rate in the post-Covid era.

Among the largest state economies, California, Georgia, Michigan, and North Carolina stand to benefit the most (+1ppt increase in state GDP growth on average in each 2022 and 2023). At a more local level, California's San Francisco Bay Area stands to profit most substantially. Other cities with large professional and business services and a high-tech footprint, including Austin, Denver, and Seattle, also stand to benefit (**Figure 7**).

Activity in the South would strengthen, with the Carolinas and Georgia recording the greatest growth increases (**Figure 5**). This is mainly due to their greater reliance on manufacturing (namely automobiles), professional and business services, and high-tech industries.

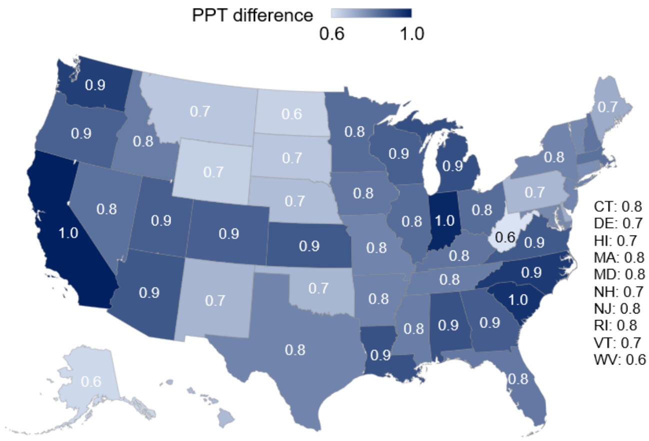
Biden's policies would benefit Northern Plains states and West Virginia to a lesser extent than elsewhere (**Figure 5**) because they rely heavily on mining and agriculture, which the AJP would benefit minimally. These two industries represent about 16% of the state GDPs of Montana, Wyoming, the Dakotas, Nebraska, and West Virginia, compared to the national average of about 5%.

The Midwest and Eastern states would generally receive a relatively mild boost (**Figure 5**). Still, Illinois, New York, and New Jersey would see a lift worth 0.8ppts to their average annual GDP growth in 2022 and 2023, while Pennsylvania would trail slightly behind. Indiana would fair well because it has a large exposure to automobile manufacturing.

We note that President Biden continues to negotiate with Republicans and members of his own party on the package. GOP opposition and growing resistance to large fiscal packages from centrist Democrats raises the odds that Biden will have to scale back his proposals.

Figure 5: Biden's AJP would deliver a broad lift across states

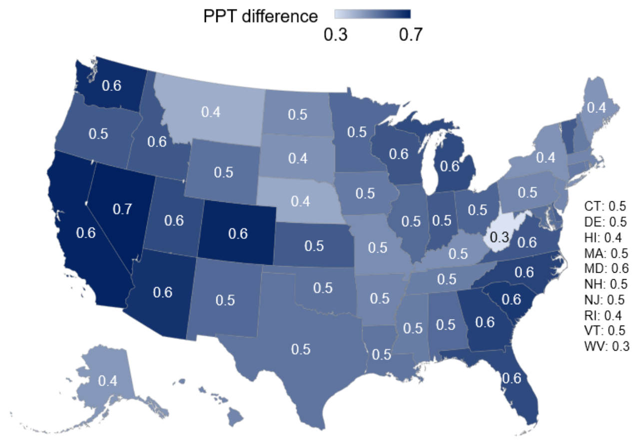
US: Average annual boost to state GDP growth in 2022 and 2023



Source: Oxford Economics

Figure 6: The increase in employment would be more modest than output gains

US: Average annual boost to state employment growth in 2022 and 2023

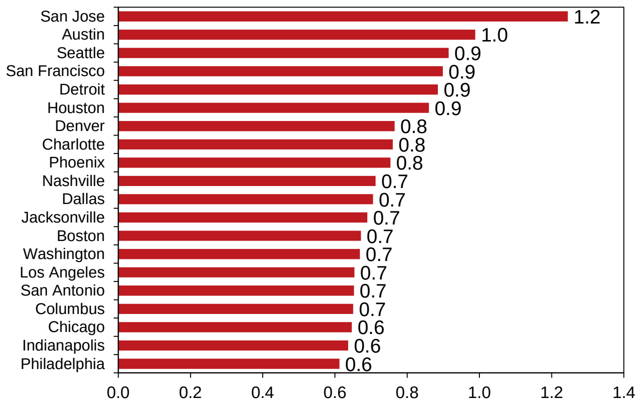


Source: Oxford Economics

Figure 7: The AJP would deliver the strongest boost to Western metros

US: Metro growth impact from AJP

Average annual boost to GDP growth in 2022 and 2023 for largest 20 MSA markets, in ppts



Source: Oxford Economics

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Appendix

Oxford Economics' Global Industry Model provides a framework for accessing Oxford Economics' industry forecasts and for building scenarios around individual projections. The model is globally integrated and transparent so that changes are reflected throughout to show the impacts of key macro drivers across 74 countries and 100 sectors. Forecasts are derived from key macroeconomic drivers from Oxford Economics' Global Economic Model.

Oxford Economics' US Cities and Regions Model produces forecasts for key economic indicators for all 50 states and the District of Columbia, 382 Metropolitan Statistical Areas, 31 Metropolitan Divisions, and 3,142 counties. The model is fully integrated with Oxford Economics' Global Economic Model and Global Industry Model, ensuring that subnational forecasts are consistent with the macroeconomic and industry forecasts.

Fiscal assumptions included in our scenario:

The American Jobs Plan			
Spending (billions, 2022-2029)			
Infrastructure			$1,282
	Transportation infrastructure	$621	
	Upgrades to buildings, power and water systems	$561	
	High-speed broadband	$100	
Investment in R&D and manufacturing			$580
	R&D	$180	
	Semiconductors	$50	
	Workforce development	$100	
	Other	$250	
In home care for elderly, disabled			$400
	Total Spending		**$2,262**
Tax credits for housing and green energy investment			$400
	Total Spending with tax credits		**$2,662**
Revenue (billions, 2022-2036)			
Increase the corporate tax rate from 21% to 28%			$1,395
Raise the global minimum tax from 10.5% to 21%			$808
Tighten inversion rules			$111
Impose a 15% minimum tax on large corporations' book income			$59
End fossil fuel subsidies			$30
	Total		**$2,403**
Total Net Cost (2022-2036)			***$259***
Source: Oxford Economics, Tax Policy Center, www.whitehouse.gov			