MACRO STRATEGY

Recovering Consumer Confidence: Lessons from September 11

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Key Takeaways

- Consumer spending, a critical component to economic recovery from COVID-19, will likely hinge on credibly reassuring the population of their own physical safety.
- Regaining this trust could take years, as it did after September 11, 2001.

After 9/11, we adjusted to a world where we knew terrible acts of terrorism were possible. Most people understood that there was little likelihood of the exact crime of September 11 being recreated, yet many people avoided flying for quite some time thereafter.

It took quite a while for the U.S. to enact the protocols that we now live with at airports and in airplanes. Enhanced security screening, air marshals, reinforced cockpit doors, fingerprinting at the border—all of this took some time to enact.[1] In addition to actually making us safer, these measures also helped reassure the public that it was safe to resume flying.

We could face a similar situation today although on a significantly broader range of activities. Consumers need to be convinced—through credible policies, improvements in treatments, and more robust testing—that venturing out of their homes and engaging in non-essential commerce is safe or could be made safe enough

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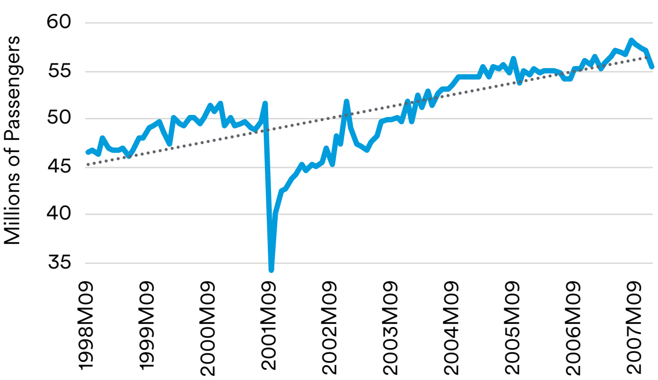
for most people. Inherent to this "return to society" is an acceptance of an additional risk that cannot be eliminated. In the same way that we now fully realize that terrorism is a threat, we now realize that pandemics are a threat.

Fear and Flying after September 11, 2001

The September 11th terror attacks and their after-effects may offer a guide to post-COVID-19 consumer behavior. After the terror attacks, flights were grounded for 48 hours with limited operations beginning on September 13.[2] But the repercussions lasted far longer. Based on passenger data (below), the number of consumers willing to fly didn't fully recover to the pre-2001 levels until the beginning of 2004, or more than two years later, a statistic that highlights the difficulty that businesses are likely to have calming a fearful public after the COVID-19 shutdowns.[3]

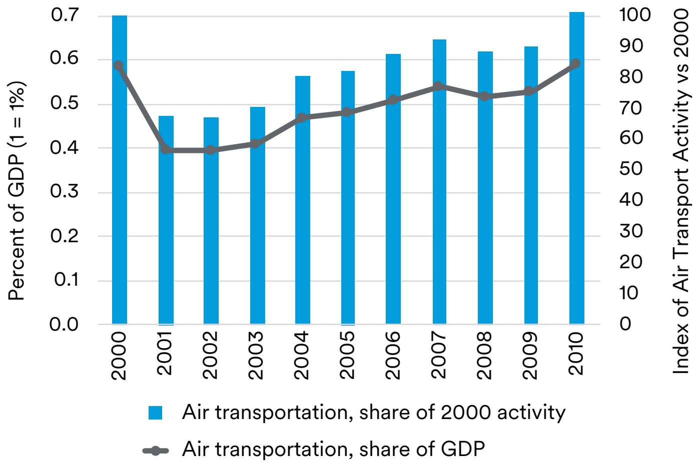
Figure 1 | Airline Passengers – 1998-2007



Source: Bureau of Transportation Statistics

Even then, passenger data may have undercounted the chilling effects of September 11th on consumer demand for these services, since it just looks at the volume dimension rather than the price dimension. Another way of looking at the data is by focusing on air transportation value added to GDP (below). In this view, we see air transportation value added to GDP, somewhat more broadly defined than passenger traffic, and on an annual rather than quarterly or monthly basis. Using this measure, the recovery took even longer, with partial recovery below 70 percent of 2000 levels for the two years after 2001. Full recovery was impeded by the great financial crisis, but even in 2007 activity was only at 92 percent of pre-2001 levels. In the absence of the financial crisis, the airline industry may finally have been able to recover by 2008, for a full recovery time of seven years.

Figure 2 | Air Transportation, Value Contributed to GDP



Source: BEA

Conclusion

It took U.S. consumers between two and seven years to resume their usual behavior after September 11, 2001. This example suggests we could see an extended recovery period with the coronavirus applied to a broad range of activities involving large groups of strangers, with significant consequences for the U.S. economy.

The clock on those two to seven years hasn't yet started. If there is no evidence of a second wave in the fall, when schools start up again and cold weather descends, the clock would likely have started in June when many states are planning to begin reopening. If there is another major wave, the clock may not start until we go through a winter without a major spike in cases—or until there's a vaccine.

It's clear that there will be some differences in the way that individuals will respond to the COVID-19 shock relative to how they responded to September 11. But it's hard to see that the COVID-19 shock will lead to a faster recovery: the danger has been harder to manage, the damage to the economic fabric has been worse, and the harm to the consumer psyche is likely to be long-lived, if history is any guide. This is likely to have ramifications, both for overall consumer spending and the patterns of that spending.

Endnotes

1 Wikipedia, "Airport security repercussions due to September 11 attacks," accessed 4/24/2020. https://en.wikipedia.org/wiki/Airport_security_repercussions_due_to_the_September_11_attacks

2 CNN, "Flights resume, but situation remains tense," September 14, 2001. https://www.cnn.com/2001/TRAVEL/NEWS/09/13/faa.airports/

3 Academic studies show a similar timeline of at least two years before consumer demand for flights recovered. E.g. Ito, Harumi and Darin Lee, "Comparing the Impact of the September 11th Terrorist Attacks on International Airline Demand," International Journal of the Economics of Business, Vol. 12, No. 2, July 2005, pp 225-249.

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