Recovering Consumer Confidence: Lessons from September 11

May 5, 2020

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
Fear and Flying after September 11, 2001

The September 11th terror attacks and their aftereffects 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. 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.

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.

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

About MetLife Investment Management

MetLife Investment Management (MIM),1 MetLife, Inc.’s (MetLife’s) institutional investment management business, serves institutional investors by combining a client-centric approach with deep and long-established asset class expertise. Focused on managing Public Fixed Income, Private Capital and Real Estate assets, we aim to deliver strong, risk-adjusted returns by building tailored portfolio solutions. We listen first, strategize second, and collaborate constantly as we strive to meet clients’ long-term investment objectives. Leveraging the broader resources and 150-year history of the MetLife enterprise helps provide us with deep expertise in navigating ever changing markets. We are institutional, but far from typical.

For more information, visit: metlife.com/investmentmanagement

---

1 MetLife Investment Management (“MIM”) is MetLife, Inc.’s institutional management business and the marketing name for the following affiliates that provide investment management services to MetLife’s general account, separate accounts and/or unaffiliated/third party investors: Metropolitan Life Insurance Company, MetLife Investment Management, LLC, MetLife Investment Management Limited, MetLife Investments Limited, MetLife Investments Asia Limited, MetLife Latin America Asesorias e Inversiones Limitada, MetLife Asset Management Corp. (Japan), and MIM I LLC.
Disclosure

Intended for Institutional Investors, Qualified Investors and Professional Investors only. Not for use with Retail customers.

This document has been prepared by MetLife Investment Management ("MIM") solely for informational purposes and does not constitute a recommendation regarding any investments or the provision of any investment advice, or constitute or form part of any advertisement of, offer for sale or subscription of, solicitation or invitation of any offer or recommendation to purchase or subscribe for any securities or investment advisory services. The views expressed herein are solely those of MIM and do not necessarily reflect, nor are they necessarily consistent with, the views held by, or the forecasts utilized by, the entities within the MetLife enterprise that provide insurance products, annuities and employee benefit programs. The information and opinions presented or contained in this document are provided as the date it was written. It should be understood that subsequent developments may materially affect the information contained in this document, which none of MIM, its affiliates, advisors or representatives are under an obligation to update, revise or affirm. It is not MIM’s intention to provide, and you may not rely on this document as providing, a recommendation with respect to any particular investment strategy or investment. The information provided herein is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation. Investment involves risk including possible loss of principal. Affiliates of MIM may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned herein. This document may contain forward-looking statements, as well as predictions, projections and forecasts of the economy or economic trends of the markets, which are not necessarily indicative of the future. Any or all forward-looking statements, as well as those included in any other material discussed at the presentation, may turn out to be wrong.