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September 11, 2002

- [HOMEPAGE](#)
- [NEWS SUMMARY](#)
- [US](#)
- [INTERNATIONAL](#)
- [MONEYScope](#)
- [WEATHER](#)
- [LOCAL NEWS](#)
- [ENTERTAINMENT](#)
- [ESPN SPORTS](#)
- [SCI/TECH](#)
- [POLITICS](#)
- [HEALTH](#)
- [TRAVEL](#)

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- [DOWNLOADS](#)
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- [VIDEO & AUDIO](#)
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A New York City police officer, wearing a protective mask, stands guard near the Stock Exchange building one day before its reopening last Sept. 16. (Kevin Coombs/Reuters)

Economic Bounce-Back

Despite Sept. 11's Potentially Crippling Blow, Economy Withstands Shock

Analysis
By Ramona Schindelheim

Sept. 10 — The U.S. economy is remarkably resilient.

It is still growing a year after the horrific terrorist attacks of Sept. 11, 2001, even though the shock waves of that event hit as the nation was struggling out of a recession that we now know ran from January 2001 through last September.

In the hours after that first plane struck the first tower at the World Trade Center, the U.S. economy came to a halt. Planes were banned from the skies, affecting not only business and leisure travel, but also freight shipments.

The nation's stock markets never opened on that Tuesday and remained closed for the rest of the week. High-profile buildings and tourist attractions shut their doors. People felt unsafe, fearful of another attack, and stayed close to home, watching the events play out on live television.

The attacks caused more than \$20 billion in property damage to buildings at Ground Zero and to the Pentagon. The loss of economic output was more than twice that amount — \$47 billion — making the Sept. 11 attacks the costliest man-made disaster in U.S. history.

Yet fears that the economy would be pushed into another recession, perhaps even a depression, went unrealized. While no one would argue the economy right now is strong, it's in better shape today than most people had anticipated. Some parts of the economy are booming, while others continue to struggle.

The reason? Consumers. In spite of the trauma, they have continued to spend these past 12 months.

[Autos, Homes Find the Spending Consumer](#)

In the first 10 days after Sept. 11, for instance, floor traffic into auto showrooms dropped dramatically. But last fall, U.S. automakers acted aggressively, offering zero-percent financing in order to bring the customers back in the door.

It worked. Sales boomed then and continue to soar now on a second wave of these financing incentives. In August, automakers were on pace to sell more than 18.7 million U.S. cars and light trucks this year. That's 40 percent higher than the same month a year ago. The strong sales are depleting the stock of cars and Detroit may have to increase production if the demand continues. More cars could equal more jobs.

Another bright spot is the housing industry. The Federal Reserve continued to cut key interest rates after Sept. 11 and mortgage rates fell in tandem. Today, they are at 35-year lows, just above 6 percent.

The low rates have made houses more affordable, despite a 6.48 percent increase over the past year in the average price of a home. Analysts believe they will remain low

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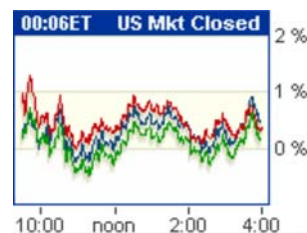
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through the end of the year, keeping the housing market alive.

The low rates have had another positive effect on the economy. They've fueled two refinancing booms in the past 12 months, giving homeowners a source of cash during tougher times.

[Travel Industry Suffers Disabling Blow](#)

But the picture is not so positive for others. The airline industry, for example, was already in trouble last September because of the faltering economy and higher fuel prices. The terrorist attacks were a disabling blow.

Over the past year, the major airlines have reported \$10 billion in losses, US Airways has filed for bankruptcy protection and many experts expect United, the world's No. 2 airline, will do the same. More than 96,000 airline jobs are gone.

Air travel has failed to return to its pre-Sept. 11 levels. In fact, the airlines have slashed the number of flights by 8 percent over the last 12 months.

While the attacks pushed the airline industry over the edge, it is the continuing tepid economy that is keeping it there. Corporate profits have yet to recover from the recession and the decline in the stock market. So, businesses are not spending on new equipment nor on business travel.

Those same factors have crushed the travel and tourism industry. The Travel Industry Association of America estimates that almost \$40 billion in revenue was lost in the first 100 days after Sept. 11 as travelers canceled and postponed trips en masse over concerns about flying. There are 22,300 fewer travel agents today.

The hotel industry is having one of its worst years in decades. This year's occupancy rate hovers around 59 percent, a number seen in the past 75 years only during recessions. Analysts expect the industry to remain weak through the end of 2004. More than 67,000 hotel jobs have been lost.

[Bending, But Not Breaking](#)

The terrorist attacks of Sept. 11 could have dealt the economy a catastrophic blow. All the elements were in place.

Instead, in the three months after the attacks the economy grew at a 2.7 percent pace. In the first three months of this year, that pace increased to 5.0 percent. More recently we've seen some decline; the hare-like growth in the first quarter was replaced by a tortoise-like 1.1 percent in the second quarter.

The threat of another terrorist attack in the United States definitely has made businesses in particular more cautious about spending and rehiring laid-off workers. In the spring, the violence in the Middle East and the tensions between Pakistan and India sent U.S. markets tumbling. Corporate scandals and continued talk of war with Iraq have added to investor worries.

These are serious concerns and until they can be resolved the overall economic growth will continue at a crawl. However, while the terrorist attacks hurt the broader economy in the short-term, the economy was able to withstand the shock without permanent damage.

That's the very definition of resilient. ■

Ramona Schindelheim is the business editor for ABCNEWS.

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