Economic Activity

Preliminary gross domestic product (GDP) was revised downward 0.7 percentage point from the advance estimate; it fell at a 1.1% annualized rate in 2001:IIIQ. The preliminary estimate of personal consumption growth was positive but slightly lower than the advance estimate; it grew at a paltry 1.1%, less than half its growth rate for 2001:IIQ. Business fixed investment fell 9.3%, although that figure represented an upward revision of more than 2.5 percentage points from the advance estimate. Changes in private inventories contributed –0.8 percentage points to real GDP growth. For 2001:IIIQ, growth in both residential investment and government spending was weaker than the last year. The trade balance deteriorated further: Although the drop in imports was steep, the slide in exports exceeded it by nearly 5 percentage points.

November’s headlines celebrated a 7.1% gain in retail sales in October, the biggest monthly percent gain ever, but this increase undoubtedly reflected the zero-percent financing offered by several automobile manufacturers. Excluding motor vehicles and parts dealers, retail sales rose a modest 1% from September’s anemic levels.

In late November, the National Bureau of Economic Research announced that the economy entered a recession this March, ending a 10-year expansion, the longest on record. Blue Chip forecasters expect GDP growth to decrease further in 2001:IVQ before it begins to recover in 2002:IQ; they do not see the quarterly growth rate surpassing its 30-year average until 2002:IIIQ.

Predicting how long a recession will last or how severe it will be is always a

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challenge, but forecasting is even more uncertain now, as Americans struggle to understand the economic consequences of September 11. If the damage to certain sectors proves long lasting, it will influence the recession’s course and severity. Three interconnected sectors—airline travel, lodging, and restaurants—have been hit especially hard. The airline industry has received the most attention because the terrorist attacks involved it directly: Airline travel in September dropped a whopping 33% from the same month last year, which is especially remarkable because the attacks occurred almost mid-month. October remained bleak, with travel down nearly 23% from a year before.

This damage will necessarily spill over into other industries, such as lodging. Revenue per available hotel room in 2001 is expected to fall 7.1% from its 2000 levels and to improve only 0.5% in 2002. This contrasts markedly with forecasts made in July, when the industry was expected to contract only 0.3% in 2001. The discrepancy between then and now results from a weaker macroeconomic forecast as well as the impact of September 11. Upper-scale chains are expected to be hit hardest, while economy and midscale chains should fare better.

The restaurant business has also suffered. In September, full-service restaurant sales fell 5.0% from August levels, while sales at limited-service restaurants dropped 2.3%. Overall, restaurant sales fell 2.5% in September. By October, the industry had recovered only partially, suggesting that not all of the previous month’s drop resulted from the “CNN effect”—potential restaurant-goers’ decision to stay at home and watch breaking news stories.