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Economy terrorized

From Wall Street to Main Street, layoffs, losses, and little hope

BY JAMES M. PETHOKOUKIS, NOAM NEUSNER, AND PAUL J. LIM

The buzzword in business before September 11 was "visibility." Company after company lamented its inability to see clearly about future prospects amid the worsening economy and dot-com debacle. Now, though, corporate America has a clear vision of the immediate future—and it's not a pretty one. "The attack has turned the business world upside down," says Diane Swonk, chief economist at Bank One in Chicago.

Companies rushed last week to put a price on the terror attacks. Firms directly affected by the horror, such as Boeing and Marriott, and some far afield, such as photo giant Kodak, warned of lower profits. Airline layoffs alone will top 100,000, pushing some analysts to say as many as 1 million workers may lose their jobs because of the post-attack repercussions. On Capitol Hill, lawmakers and the Bush administration began crafting an economic emergency response. "The foundations of our free society remain sound, and I am confident that we will recover and prosper as we have in the past," Federal Reserve Chairman Alan Greenspan told Congress.

The first order of business: a $15 billion lifeline to the airlines. "This is an event that's unparalleled in our history," says Sam Addoms, chief executive of Frontier Airlines in Denver, which last week joined its larger peers in announcing hefty layoffs and a 20 percent flight reduction.

On Wall Street, markets tumbled amid the likelihood of recession *and* war: The Dow Jones industrial average fell nearly 700 points Monday, then continued a downward spiral that brought about the market's worst week since the Depression. The blue-chip index lost 1,370 points, or 14.3 percent. The Nasdaq is now trading at the level of the summer of 1997. "It's no longer about earnings or the economy or interest rates anymore," says Morgan Stanley market strategist Peter Canelo. "It's about fear."

Some observers believe Washington's response could be a tonic to the teetering economy in time. "The recovery could be much steeper than expected due to the fiscal and monetary stimulus we're in store for," says Richard Weiss, chief investment officer for City National Bank.

But that may be small comfort to the average worker or business owner struggling to survive amid the present-day ruin. "I've seen bad times, but this is the worst," says Washington, D.C., cabby Kofi Adjei, 41. A 10-year veteran of the roads, Adjei says business is down about 60 percent from the $130 a day he averages for 11 to 12 hours of work. No surprise: Reagan National Airport is the only major one in the country still closed, and the city's hotels and downtown streets are far from full.

Restoring consumer confidence is a top priority for Greenspan and Congress, given that consumer spending accounts for about two thirds of the nation's total output. To that end, the Fed has been



ANXIOUS MOMENTS. Traders take a reflective break outside the New York Stock Exchange as markets continue to tumble inside.

STREET SIGNS

Market moves

Stocks typically fall sharply the day after a tragedy but usually rebound over the long haul.

	FIRST DAY	1 MONTH	1 YEAR
World Trade Center attack Sept. 11, 2001	–4.9%	N/A	N/A
World Trade Center bombing Feb. 26, 1993	–0.3%	+1%	+5.4%
Iraqi invasion of Kuwait Aug. 2, 1990	–1.9%	–8.1%	+10.2%
Kennedy assassination Nov. 22, 1963	–2.8%	+6%	+23.5%
Pearl Harbor bombing Dec. 7, 1941	–4.4%	–4.1%	–0.9%

Source: Standard and Poor's

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DAVID BUTOW—CORBIS SABA FOR USN&WR

flooding the markets with cash. Congress, meanwhile, is awash in plans to spend money, drawing down the $153 billion Social Security surplus. There's even talk of further tax cuts. Congress, having already passed a $40 billion emergency aid package, is now weighing tax cuts for businesses and low-income households.

The economic devastation of the worst disaster on American soil is far and wide. Last week, individual industries began to tally the toll:

Airlines

While "recessions are bad for the airline industry, terrorism is worse," says Adam Pilarski, senior vice president at aviation consultants Avitas. Now both are hitting full force, as heavily indebted and cash-poor carriers are seeing a drastic reduction in bookings. Some planes are flying less than half full. "This will put some people out of business," says Carol Hallett, president of the Air Transport Association, which expects industry losses to approach $10 billion both this year and next.

When—and if—the industry recovers, it will have been fundamentally altered. Passengers can expect fewer flights overall and anemic service to smaller airports, as airlines focus on large, profitable hubs.

Consolidation will occur, as has happened in past downturns. The Justice Department, which this summer scrapped a US Airways–United merger, may be more amenable to combinations that preserve routes and save jobs.

And expensive new technologies and procedures will be adopted "to put the civil system on a war footing against terrorism," says Aerospace Industries Association president John Douglass. The only good news: Passengers will see a flurry of cheap tickets as carriers try to lure shell-shocked customers back to the skies. *–Matthew Benjamin*

Oil

As U.S. naval forces headed out from Norfolk toward the Middle East, the oil market was jittery but focused as much on recession as on the threat of war. Crude prices slid downward on the assumption that economic slowdown and a drop in air travel would depress demand. Still, with the prospect of armed conflict very real, analysts see considerable risk of higher

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energy prices. "A lot of this is going to depend on if and when and how a military intervention takes place," says Bill O'Grady, director of futures research at A. G. Edwards & Sons. "Is it isolated just to Afghanistan, or do you involve an oil-producing country, most likely, Iraq."

The Gulf War caused oil prices to skyrocket, but many are betting that there is not as direct a threat now. For one thing, OPEC last week expressed resolve to stabilize production and prices.

But Michael Lynch of the research firm DRI-WEFA said that despite decreasing demand, the terror attack had produced an "uncertainty effect" that would possibly drive oil prices higher in the weeks ahead. Lynch said that oil companies and large industrial users of oil very likely would attempt to build their inventories amid uncertainty. Meanwhile, consumer unease could spur a sudden increase in gas prices. "If motorists suddenly panic, out of fear that gas won't be available or will be available at some stratospheric price, they're going to line up at gas pumps and create a gasoline shortage," says Geoff Sundstrum of the American Automobile Association. *–Marianne Lavelle*



ANDREW LICHTENSTEIN—AURORA FOR USNWR

SLOWDOWN. Salespeople await customers, who avoided stores like this jewelry shop, in the aftermath of the terrorist attacks.

Retailing

Many shoppers stayed home during the week of the attack. Federated Department Stores, which owns Bloomingdale's and Macy's, said sales during the week were $65 million, or about 20 percent, below its forecasts. Other retailers, including Wal-Mart Stores and bookstore chains Borders Group and Barnes & Noble, as well as teen apparel retailer American Eagle Outfitters, reported a fast drop-off in sales but some rebound by last weekend. "For the most part, sales are starting to come back, but they're not where [retailers] want them to be," says Tracy Mullin, president of the National Retail Federation.

Consumers already planning the purchase of a new car, appliance, or other big-ticket item may go ahead, but forget those who had only begun to think about buying, says Marian Friestad, president of the Society for Consumer Psychology. "This would be a time when people would not be particularly open to changing their purchase behavior or trying new things," she says. Frivolous purchases, like perfume and fashion, will probably decline. Indeed, high-end-goods firm Louis Vuitton Moët Hennessy issued an earnings warning.

And what of the crucial Christmas season? "People aren't designed to stay in an extreme emotional state for very long," says Friestad. If there are no further attacks as the fall wears on, "the normal purchasing and normal kinds of consumer behavior will take over," she says. That doesn't mean boffo sales, however, since analysts were predicting a sluggish season. One potential bright spot: Consumers may step up their gift-giving this Christmas because of the renewed focus on family and friends. *–Katherine Hobson*

Media

On Madison Avenue, advertising industry executives tallied their losses after nearly a week without network TV ads. But fallout from the tragedy was being felt half a continent away in Northfield, Ill., where marketers at Kraft Foods were red-faced. Picking up last week's issue of *People* magazine, they saw a photo of terrified New Yorkers fleeing the inferno. Opposite it was an ad for the company's Oasis nutrition bar in which a female cartoon character quips about the brighter side of an airline losing your luggage: "You have an excuse to buy a whole new wardrobe."

Kraft's embarrassment underscores the marketers' dilemma. Kevin Roberts, CEO of Saatchi & Saatchi Worldwide, urged advertisers to fight terrorism by getting back to business. "The key message now is go shopping—spend, live, choose," he said. "If our clients run scared, then the terrorists win." But an industry known for its outrageousness and cheek must now find a new vocabulary attuned to the nation's grief. So wary of offending have some marketers become that Sears canceled its commercials on ABC's *Politically Incorrect* after host Bill Maher appeared to insult the military.

That new reticence is likely to mean further losses for an industry already suffering from a sharp cutback in spending. Last week, three months after revising his prediction for revenue growth downward from 5.8 percent to a scant 2.5 percent, Robert Coën, director of forecasting for Universal McCann, said ad spending "could be very close to flat."

Already, the six TV networks report an estimated $320 million in lost ad revenues due to the attack. And four of the country's newspaper groups warned of a shortfall in third-quarter earnings because of canceled ads. Not only are revenues down, but expanded news coverage has pushed newsprint and labor costs up. But Samir Husni, journalism professor at the University of Mississippi, sees the tragedy having a salutary effect on media content. "This is serious stuff, not just PR," he says. "It's going to be some time before we get back to fluff." *–Marci McDonald*

Entertainment

How do you market virtual mayhem when the real-life version is on TV screens round the clock? That's the challenge facing the $372 billion entertainment and amuse-

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ANDREW LICHTENSTEIN—AURORA FOR USN&WR



STALLED. A US Airways flight attendant finds an empty ramp where passengers normally fight for cabs at New York's La Guardia airport.

ment industry, which analysts figure will suffer a 6 percent to 8 percent decrease in revenues because of the tragedy.

The most pressing question right now is what will happen in TV, already reeling from a big drop in advertising. Although the new season has been pretty well purged of any references that might be deemed offensive in the wake of the attack, there is serious doubt about viewers' tastes in the future. "We have no idea whether we can interest viewers in new shows," said one network executive who asked not to be identified. "The new season could be a total shambles, and there is nothing we can do about it."

Two big-budget films—*Big Trouble* and *Collateral Damage*—were shelved indefinitely last week. Other movies with New York themes were pushed back. Still more were simply scrubbed clean of their references to terrorism and the World Trade Center. However, the entertainment industry may not suffer long-term damage, with losses expected to level off by the first quarter of next year, according to analysts. *–Betsy Streisand*

TAILSPIN

Workplace toll

Airlines and aerospace firms began slashing their workforces last week.

COMPANY	NUMBER OF LAYOFFS ANNOUNCED
American Airlines	20,000
United Airlines	20,000
Boeing	30,000
Continental	12,000
US Airways	11,000
Northwest	10,000

Insurance

Already stunned by a plunge in profits and losses from storms in the first half of the year, property and casualty insurers now face even worse. "All profits will be wiped out," warns Michael Paisan, an analyst at Williams Capital Group. Already, first-half profits were down 76 percent, or $7.9 billion, according to the Insurance Services Office, which tracks earnings. Lower stock prices and interest rates, meanwhile, are curtailing the investment income of insurers. But analysts are confident that the industry will be able to meet the estimated $30 billion in projected claims, a loss that could escalate if costly business-interruption and personal injury claims accelerate. "These companies have very liquid investments that can be readily sold," says Kenneth Zuckerberg, an analyst at the securities firm of Dresdner Kleinwort Wasserstein. Two helping hands: Uncle Sam, since insurers get a tax deduction for their claim payments, and foreign reinsurance companies, which insure insurers.

One sure bet: higher rates and more limited coverage for terrorist or war-related events, especially for airlines. Commercial property and casualty rates, after a decade of stagnation because of intense competition, recently began rising—about 10 percent to 15 percent on renewals. Policies expiring in the months ahead could face additional hikes of 20 percent or more—in part because domestic and foreign reinsurers will boost the fees to share big risks. *–Leonard Wiener*

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