The Terrorist Attacks of September 11th as Reflected in the National Income and Product Accounts

The economic effects of the September 11th terrorist attacks on the World Trade Center and the Pentagon are captured in the national income and product account (NIPA) estimates for the third quarter. Most of these effects are reflected in the regularly incorporated source data; for certain components, BEA prepares adjustments for the effects that are not captured in the source data. Because most of the effects are embedded in the source data and cannot be separately identified, BEA did not attempt to quantify the total impact of the attacks on gross domestic product (GDP) or on other major aggregates.

The main economic effects of the events of September 11th captured in the NIPA's are the following:

- The reduction in real GDP growth for the third quarter reflected notable declines in consumer spending and in other components of GDP for September.[1]
- The property losses are captured by a sharp increase in the consumption of fixed capital and a corresponding decline in net domestic product—GDP less the consumption of fixed capital. These property losses had no immediate, direct effect on real GDP, which is a measure of the production of goods and services.[2]
- The payments by insurance companies to cover the property losses are expected to reduce corporate profits. (BEA's estimates of corporate profits for the third quarter will be released on November 30.)
- The decline in inflation, as measured by the gross domestic purchases price index, reflected a sharp reduction in the net premiums paid for insurance. In the NIPA's, insurance expenditures are defined as premiums net of benefits payable, and the large benefit payments resulting from the September 11th attacks were treated as a reduction in the net price of insurance.

BEA prepared adjustments to certain components of GDP and gross domestic income (GDI).[3] These adjustments primarily affected current-dollar estimates and price estimates; their effects on the third-quarter estimates of real GDP and its components were small. The following paragraphs and table describe the quantitative effects of these adjustments on current-dollar GDP and prices and on GDI.

Current-dollar GDP and prices.—Under NIPA conventions, current-dollar expenditures for life insurance are based on the operating expenses of the insurer (including profits of stock life insurance companies), and current-dollar expenditures for other types of insurance are defined as premiums less benefits payable. Accordingly, within PCE for services, adjustments lowered the "expense of handling life insurance and pension plans" component of personal business services by $10.6 billion, the workers' compensation component of health insurance (under medical care services) by $9.6 billion, and the (motor vehicle) insurance component of user-operated transportation (under transportation services) by $0.3 billion (annual rates).[4] Within imports of services, an adjustment lowered "other private services" by $44.0 billion to primarily reflect claims by domestic insurers for reinsurance policies with foreign insurers. Within State and local government consumption expenditures and gross investment, an adjustment lowered "other services" by $0.8 billion to reflect insurance benefit payments to general government. The net effect of these adjustments was to lower current-dollar gross domestic purchases by $21.3 billion and to raise current-dollar GDP by $22.7 billion. BEA treated these adjustments to current-dollar GDP as changes in the corresponding implicit prices for insurance services, so real GDP was not affected. As a consequence, these adjustments for disaster-related insurance payments lowered both the PCE price index and the gross domestic purchases price index and raised the GDP price index. Excluding the insurance-related price effects for the third quarter, the PCE price index would have increased 0.8 percent, in contrast to the decrease of 0.4 percent; the gross domestic purchases price index would have increased 0.5 percent, in contrast to the decrease of 0.3 percent; and the GDP price index would have increased 1.2 percent, compared with the increase of 2.1 percent.

In addition, within PCE for services, several other adjustments were made that lowered spending on some compo-

1. It is not possible to isolate the portion of the decline in consumer spending for the month that occurred in the aftermath of the attacks. For the month of September, current-dollar personal consumption expenditures (PCE) decreased 1.8 percent at a monthly rate and real PCE decreased 1.3 percent, the largest decreases since January 1987, when current-dollar PCE decreased 1.8 percent and real PCE decreased 2.4 percent.

2. The destruction of property will also be reflected in a reduction in the net stocks recorded in BEA's accounts for fixed assets and consumer durable goods.

3. These adjustments are based primarily on preliminary information from a variety of sources and are subject to revision as more complete information becomes available.

4. All subsequent dollar amounts are also expressed at annual rates. For monthly personal income and outlays, the adjustments were to the month of September, and the values of the annualized monthly adjustments are three times as large as those for the annualized quarterly adjustments.

nents (motor vehicle rental, spectator sports, amusement parks) and raised spending on video cassette rentals; the net effect of these adjustments was to lower PCE for services by about $0.7 billion. Within State and local government consumption expenditures and gross investment, an adjustment raised spending for wages paid to police and firefighters for overtime work by about $0.8 billion. These adjustments did carry through to the estimates of real GDP, but their net effect was minimal.

Gross domestic income.—Under NIPA conventions, the consumption of fixed capital (CFC) is increased to reflect the catastrophic destruction of fixed assets owned by private business or by government enterprises.[5] For fixed assets owned by general government (such as the Pentagon), no adjustments are made to CFC for catastrophic destruction, because CFC is included in government spending as a partial measure of the services of government capital. Instead, the destruction is recorded as a direct reduction in the stock of general government fixed assets. The approximate value of the assets that were destroyed is estimated at $14.0 billion for private businesses and $1.5 billion for State and local government enterprises. Therefore, CFC was increased by $62.1 billion (annual rate) in the third quarter. The approximate value of the destroyed assets owned by general government was $0.7 billion.

The third-quarter estimates of wages and salaries were also adjusted because the regular source data on employment, hours, and earnings from the Bureau of Labor Statistics monthly employment survey cover the mid-month pay period; thus for September, these data did not fully reflect the changes in the labor markets following the September 11th attacks. BEA's adjustments to wages reflected decreased hours due to work interruptions, decreased employment due to layoffs, and increased hours due to overtime work. The net effect of these adjustments was to lower private wages and salaries by $3.3 billion and, as already discussed, to raise State and local government wages and salaries by $0.8 billion.

5. In July 2001, the Port Authority of New York leased the twin towers and other properties at the World Trade Center to two private corporations on a 99-year lease. This lease was treated in the NIPA's as a sale of an existing asset, which raised the "net purchases of used structures" component of private fixed investment by $12.8 billion (current dollars) and lowered the structures component of State and local government gross investment by the same amount; thus, the lease transaction offset and did not affect GDP.

The profits of insurance carriers will reflect the payment of insurance benefits associated with the attacks; very limited information suggests that these payments may amount to between $30 billion and $40 billion.[6] In addition, the profits of other corporations, nonfarm proprietors' income, and the surplus of government enterprises would be reduced to reflect any uninsured losses, which, on the basis of currently available information, appear to be small. Finally, the profits of airlines will reflect the subsidies ($20 billion) received as part of the special airline bill passed by the Congress after the September 11th attacks. (Within GDI, these subsidies are offset by "subsidies less current surplus of government enterprises.")

6. The benefit payments are recorded in the period in which the event occurs to reflect the full (expected) loss, regardless of when the payments are actually made.

Adjustments to the NIPA's for the Impact of the September 11th Terrorist Attacks, 2001:III

[Billions of dollars at annual rates]

	Adjustment
Product side:	
Personal consumption expenditures	–21.2
Insurance	–20.5
Motor vehicle insurance	–0.3
Workers' compensation	–9.6
Expense of handling life insurance and pension plans	–10.6
Other services	–0.7
Net exports	44.0
Imports of services	–44.0
Government consumption expenditures and gross investment	0
State and local compensation	0.8
State and local general government insurance	–0.8
Income side:	
Wages and salaries	–2.5
Private	–3.3
State and local government	0.8
Proprietors' income with IVA and CCAdj	0
Consumption of fixed capital	–2.2
Insurance benefits received	2.2
Corporate profits with IVA and CCAdj	–39.4
Consumption of fixed capital	–53.8
Insurance benefits received	53.8
Benefits paid by insurance companies	–83.4
Payments received from foreign reinsurers	44.0
Consumption of fixed capital, total	62.1
Private	56.0
Government enterprises	6.1
Surplus of government enterprises	0
Consumption of fixed capital	–6.1
Insurance benefits received	6.1

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment