



The Economic Impact of Hurricane Katrina

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Hurricane Katrina will be the costliest natural disaster in modern U.S. history. The loss of life is unprecedented, as is the extent of the damage. Historically, hurricanes have had little economic impact except for the area that is directly impacted. However, unlike prior hurricanes, Katrina is having and will have lasting effects on the U.S. economy.

The most significant national economic fallout is due to Katrina's impact on key energy assets along the Gulf Coast. An amazing 30 percent of the nation's oil supplies flow through Louisiana. The Gulf Coast is the source of about 10 percent of the nation's refining capacity, so gasoline prices have soared. Analysts project average pump prices to be \$3 per gallon over Labor Day and to rise a bit more in the fall. Crude prices have also spiked and appear poised to go higher, since production in the Gulf is shut in and this represents 25 percent of domestic capacity.

There is some good news: apparently there was no catastrophic damage to the oil infrastructure. Furthermore, the industry is capable of rebounding quickly from storm events. The limiting factor in the short run is electricity. Thus, refineries should be running in the next seven to ten days. However, it took about nine months for the industry to fully recover from the effects of hurricane Ivan, so there will be some lingering impacts on the oil markets from Katrina.

Obviously, higher oil prices mean somewhat slower economic growth. Instead of growth at 3-4 percent we will see growth during the second half of this year at about 2-3 percent. It is most unlikely that Katrina will trigger a national recession. However, it will take years before the economy of the Gulf Coast recovers, and New Orleans will never be the same. Based on Florida's history, those areas directly impacted, such as Homestead, take decades to rebuild and are never again the same.

Although Florida is fortunately far away from the impact zone, we are being directly affected. Slower growth in the national economy coupled with much

higher gas prices will slow our torrid growth rate. Tourism will be a bit lower than otherwise, and the higher gas prices act like a tax on consumer spending. However, as long as there are no significant disruptions to the availability of gasoline and, more generally, energy, Florida will not be significantly affected by the fallout from Katrina.

This is Hank Fishkind for 90.7 FM, WMFE News.