

Committee on Ways and Means

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Contact: Press Office
(202) 225-8933

Economic Update: Hurricane Katrina

As the human impact of Hurricane Katrina becomes clear, the disaster's total economic impact on the United States is still being evaluated. Damage to oil production and distribution infrastructure is less than originally thought. However, the hurricane's effects will be felt for many quarters. CBO estimates that growth in the second half of 2005 will likely be reduced by 0.5 to 1 percentage point and employment could drop temporarily by 400,000.

- Just before Hurricane Katrina hit, the Commerce Department estimated second quarter GDP growth to be 3.3 percent. Many economists have revised their second half GDP predictions downward from as high as 4.2 percent to around 3.6 percent, still above the long-term growth trend for the economy. Economists are also revising upwards their growth estimates for 2006, when the recovery and rebuilding efforts are expected to go into full swing.
- The chart to the right from the *Wall Street Journal* (September 1, 2005) shows that hurricanes rarely have a strong lasting effect on GDP growth. Although the effects of Katrina will be larger than previous hurricanes, the fundamentals of the economy are strong so Katrina's national economic effects could be short-lived. However, the regional impact will be much larger and long-lasting.
- As the price of oil jumped to above \$70 a barrel last week, oil supply shocks became a concern. However, as production has come back on line and more is now known about the extent of the damage, prices slipped back down to \$65 a barrel.
- The ports of Southern Louisiana handle one-fifth of the nation's foreign trade – over \$130 billion in economic activity, including one-third of the nation's energy imports. Although some of this shipping activity can be re-routed to other ports, restrictions on the Mississippi River are a problem for businesses upstream. The port of New Orleans is scheduled to reopen within the week – very good news for exporting Midwestern farmers and manufacturers.
- Economic statistics of the affected areas:
 - The nine metropolitan areas affected by Hurricane Katrina account for 1.3 percent of U.S. employment and 1.1 percent of U.S. gross domestic product.
 - The region employs 1.6 million workers who produce \$130 billion in output.
 - The affected area was home to 2.3 million people, (0.8 percent of the U.S. population), and covers 90,000 square miles, (2.5 percent of the U.S. surface area). At the time Katrina hit, New Orleans was the 35th largest U.S. city by population.

