

**Current as of December 15, 2005.**

**Does not reflect subsequent revisions made in later Gulf Coast Recovery reports.**

# **Hurricane Katrina<sup>1</sup>: Economic Impacts 3-1/2 Months after Landfall**

**December 15, 2005**

Prepared by the  
Economics and Statistics Administration  
U.S. Department of Commerce

This is the second report on economic impacts of Hurricane Katrina on the national economy, the economies of Louisiana, Mississippi, and Alabama, and the most severely affected counties in these states. The first report was issued on October 21. In a number of cases, the information and/or impacts described in the first report have not been changed or updated. These include Population and Housing, Industries, Exports and Imports, Agriculture, and Fisheries. That information is not repeated in this report.

## **President Creates Gulf Coast Recovery and Rebuilding Council**

On November 1, the President, through an Executive Order, created the Gulf Coast Recovery and Rebuilding Council and selected the former chairman of the Federal Deposit Insurance Corporation, Donald E. Powell, to be the Federal coordinator. Mr. Powell is the Administration's primary point of contact with State and local governments, the private sector, and community leaders on long-term recovery and rebuilding plans. As Federal Coordinator, he will work with Congress and Federal departments and agencies.

## **Impact on the Nation**

### **Impact on U.S. GDP Growth**

- In October, a number of economic forecasters predicted that, as a result of the hurricane, national economic growth, as measured by real GDP growth, would be lower by 0.5% to 1.0% in the second half of 2005.
- These predictions were not realized. Real or inflation-adjusted economic growth in the 3<sup>rd</sup> quarter of 2005 was 4.3%, up significantly from 3.3% in the second quarter. (Bureau of Economic Analysis).
- Thus, the hurricanes—including Katrina, and also Rita and Wilma—had little or no effect on national economic growth in the 3<sup>rd</sup> quarter of 2005 and their impact on 4<sup>th</sup> quarter

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<sup>1</sup> This report is primarily on the economic impact for Katrina. However, there are also references in this report on the combined economic impacts including Hurricanes Rita and Wilma.

growth would seem to be even less as post-hurricane peaks of energy prices continue to retreat.

**Status of National Residential Construction** (See attached addendum for data through November 2005)

Re-construction in the Katrina-affected region could be affected by construction activity across the nation. Strong national demand for construction, building materials, and skilled construction labor could have adverse effects on the long-term rebuilding efforts in the south. A surge in demand for building materials has the potential for raising the prices of these goods until supply and demand relationships stabilized. Below are the latest data on construction across the nation and movement in building material prices.

- Sales of single-family homes across the nation jumped a surprising 13.0% (seasonally adjusted) in October, from the month before. (Census) Three of four regions in the country posted increased sales of new homes in October, with sales in the West jumping by 46.9% and in the Northeast by 43.3%. In the South, new home sales increased by 1.9% while sales in the Midwest dropped by 9.5%. In September, the month after Katrina hit, sales of single-family homes increased by a more modest 3.4%.
- Not all construction indicators are so rosy. Residential building permits were 6.7% below the September level (seasonally adjusted). Housing starts were down 5.6% and housing completions were unchanged.
- Building material prices in Sept./Oct., except for plywood, showed little change from the average change in prices of all intermediate materials (excluding foods and feeds). In September, all intermediate materials prices increased by 2.7% from the previous month and 3.0% in Oct. (Table 1) Plywood was the one material demonstrating a significant price rise post-Katrina, increasing by 14.4% in Sept. and 5.1% in October.
- There was little change in Construction machinery prices in September and October.

(See the section titled **Impacts on Parishes/Counties** for estimates of residential construction impacts in the most severely damaged counties/parishes.)

<b>Table 1</b>		
<b>Changes in Prices of Building Materials</b>		
<b>(August to October 2005)</b>		
	<b>Seasonally Adjusted Percent Change from:</b>	
	<b>Aug. to Sept.</b>	<b>Sept. to Oct.</b>
<b>Intermediate materials less foods and feeds</b>	2.7	3.0
Plastic construction products	1.6	7.4
Softwood lumber	2.8	-1.2
Plywood	14.4	5.1
Steel mill products	3.7	3.0
Cement	0.7	1.2
<i>Source: BLS Producer Price Index series.</i>		

## **Impact on the Region: Louisiana, Mississippi and Alabama**

### **Louisiana Outlook, 2006 and 2007**

- See “The Louisiana Outlook: 2006 and 2007” by Loren Scott and James Richardson, Division of Economic Development and Forecasting, Louisiana State University, November 2005.
  - Pre-Katrina estimate that New Orleans MSA would grow by 18,000 jobs in 2006-07. Post-Katrina estimate that New Orleans MSA will decline by almost 279,000 jobs in 2006-07.
  - Pre-Katrina estimate that Baton Rouge MSA would grow by 8,800 new jobs in 2006-07; Post-Katrina estimate that Baton Rouge will gain 26,300 jobs in 2006 and another 4,300 jobs in 2007.
  - Scott and Richardson make these types of estimates for an additional 6 MSAs in Louisiana. They conclude that Hurricanes Katrina and Rita wiped out 11 years of statewide employment gains and that the loss in the state’s population may be significant enough to cost the state a congressional seat.

### **Damage and Loss Estimates for the Region**

- Total economic losses in the region are likely to amount to more than \$100 billion and of that, insured losses could amount to \$40 billion, according to the Insurance Information Institute (III) (October report).
- The III also says that the Federal Government has already authorized \$75.4 billion in aid.
- *FEMA* preliminary damage assessments (PDA’s) are, so far, significantly less than damage estimated by the III, the CBO, and others. As of this report, *FEMA*’s PDA’s, which use different definitions of categories of damage than the III and CBO, are less than \$5 billion total.

## **Employment Status through November (BLS)** (See attached addendum for data through December 2005)

- The national unemployment rate in November was essentially unchanged from September and October at 5.0%.
- Of the 900 thousand persons, age 16 and over, evacuated because of Katrina in August, about half have returned home. Of those that have returned home, their unemployment rate was 12.5% (November). Of those that have not returned home, their unemployment rate was 27.8%.
- About 600 thousand people have lost jobs (as measured by those submitting for jobless claims benefits) from the hurricanes Katrina, Rita, and Wilma according to the Labor Department.
- The October unemployment rates in Louisiana and Mississippi in October continued to be significantly higher than the national average—Louisiana, 11.3% and Mississippi, 9.6%--both, essentially unchanged from September. The Alabama unemployment rate was 4.5%. The 2004 average annual unemployment rate for Louisiana was 5.7%, Mississippi was 6.2%, and Alabama was 5.5%.

## **Business Establishments (Pre-Katrina) in the Affected Region (Census)**

- Louisiana, in 2003, had just over 107,000 business establishments with 1.6 million employees. The Census Bureau geo-coded (latitude/longitude coordinates) just over 70,000 of these establishments. Of the 70,000 geo-coded business establishments in Louisiana, about 74% (52,000) are in parishes declared as Federal disaster areas and about 19% (13,000) are within the FEMA designated damage zones.
- Mississippi, in 2003, had just over 62,000 business establishments with just under 900,000 employees. The Census Bureau geo-coded just over 34,000 of these. Of the 34 thousand geo-coded business establishments in Mississippi, about 16% (5,000) are in counties declared as Federal disaster areas and about 8% (3,000) are within the FEMA designated damage zones.

## **Energy**

- In October, we reported that 61% of crude oil and 51% of natural gas production in the Gulf of Mexico were classified as “shut in” or non-productive because of the hurricanes. As of December 12, the Energy Information Administration reports that 28% of crude oil and 23% of natural gas production remains shut-in or non-producing.
- In October, we reported that the Louisiana Department of Natural Resources stated that onshore crude oil production in southern Louisiana reached 28% of the region’s capacity and natural gas, 34%. As of December 12, the Louisiana Office of Conservation reported that 67% of the onshore and offshore (State waters only) oil and gas production has been restored.

## Infrastructure—Cost to Rebuild

- McGraw-Hill Construction (Sept. 20 report) estimated that the cost to rebuild public infrastructure—including shoreline protection, roads and bridges, water and sewerage facilities, power stations and communications lines—will be about \$3.5 billion.
  - Transportation costs to repair roads and bridges will be about \$1.5 billion while water and sewerage about \$500 million.
  - Debris removal is estimated to cost \$1.5 billion.
- The Congressional Budget Office (cited in our Oct. 21 report) estimated that the total value of energy infrastructure destroyed or damaged was between \$18 to \$21 billion, other industry infrastructure, between \$16 and \$32 billion, and government structures and equipment, between \$13 and \$25 billion.
- Total infrastructure costs, including public, energy industry, all other industries, and government, could equal between \$40 and \$80 billion.

## Travel and Tourism

- Hurricane Katrina devastated several popular destinations for domestic and international travelers, ranging from the culturally rich city of New Orleans to the historic mansions, casinos, resorts and beaches in Mississippi and Alabama. According to the Travel Industry Association of America and the Travel Business Roundtable:
  - Approximately 18% of total employment for Louisiana, Mississippi and Alabama, or approximately 1 out of every 5 jobs, are travel and tourism specific and have been impacted by Hurricane Katrina.
  - Aside from the government, the tourism industry is the largest employer in the city of New Orleans, with more than 80,000 jobs having a \$5 billion annual impact on the economy. Travel and tourism in New Orleans accounts for 44% of Louisiana’s tourism revenue and contributes \$158 million in annual state tax revenues. [No data or estimates exist to compare this industry’s tax revenue with other industries.]
  - Hurricane Katrina affected travel and tourism in 50 counties, which collectively are facing daily losses in travel and tourism revenue of \$50 million. Roughly 260,000 workers are being affected in these counties. (Table 2)

<b>Table 2</b>				
<b>Estimated Impact of Hurricane Katrina on Local Travel and Tourism</b>				
	Number of counties affected	Spending on tourism in 2004	Daily spending losses	Number of jobs supported
<b>Total</b>	50	\$18.3 billion	\$50 million	260,000
<b>Alabama</b>	3	\$2 billion	\$5.5 million	30,000
<b>Mississippi</b>	15	\$2.8 billion	\$7.7 million	38,000
<b>Louisiana</b>	32	\$13.5 billion	\$37 million	191,000
Sources: Travel Industry Association of America and Travel Business Roundtable.				

## Gaming Sector<sup>2</sup>

- The gaming industry is important to the economic vitality of the Gulf Coast region. Mississippi has the third highest gaming revenue of any commercial casino state, behind only Nevada and New Jersey. In 2004, Biloxi/Gulfport ranked as the seventh-largest individual gaming market in the country, with total revenues of \$911.4 million and New Orleans ranked 15<sup>th</sup> with total revenues of \$608.8 million.
- Approximately 20,000 casino workers were displaced by the loss of 13 casinos in Biloxi, Gulfport and Bay St. Louis, Mississippi, and 4 casinos in Louisiana. The American Gaming Association estimates that over 10 percent of the 20,000 displaced casino workers have either taken jobs at other casinos throughout the country or have taken local jobs created by the rebuilding effort. Gaming jobs in the Gulf Coast region pay on average \$30,000-\$35,000 annually and workers typically receive health insurance and retirement benefits.
- Harrah's employed 9,400 workers in the affected areas (8,000 affected by Katrina and 1,400 affected by Rita) in Louisiana and Mississippi. Harrah's agreed to continue to pay its workers and provide benefits for 90-days. The 90-day period recently ended and last week Harrah's laid off most of its workers, but indicated that those workers would have first consideration when they start to rehire. Harrah's in New Orleans, Louisiana's only land-based casino, did not sustain major damage, but will not reopen until 2006, after the city starts to repopulate and demand resumes for gaming and related services.
- Gaming revenue from coastal facilities has dropped to zero, but riverboat casinos continue to operate in parts of Louisiana and Mississippi and still produce some tax revenue. Losses in tax revenue to Louisiana and Mississippi state governments are estimated at \$500,000 per day (for each state) as long as the damaged casinos are closed. Gaming tax revenue from the Mississippi coastal casinos may not return to prior levels until 2007.

## Impact on Parishes/Counties

In Louisiana, Mississippi, and Alabama, there are 169 counties and parishes eligible for individual and/or public assistance. Seventy-seven of these counties/parishes are designated by FEMA to be the most affected counties and are eligible for both types of assistance. The remaining 102 counties are eligible for public assistance only.

The heaviest damage was experienced in five parishes/counties. They are: in Louisiana—Orleans Parish, St. Bernard Parish, Jefferson Parish and in Mississippi—Harrison County and Hancock County.

Below are estimates of (1) residential construction impacts in the most severely affected parishes/counties and (2) the number of firms (pre-Katrina) in the New Orleans and the Gulfport-Biloxi Metropolitan Statistical Areas (MSAs) with less than 5 employees.

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<sup>2</sup> In this report, "gaming" refers to only riverboat and land-based casinos.

### **Construction Impacts (McGraw-Hill Construction Sept. report)**

- Residential losses – 60% of residential housing stock in New Orleans Parish, 100% in St. Bernard's Parish while Jefferson Parish homes are largely intact. About 184,000 homes in these three (3) parishes will need to be rebuilt, about 7 times the number of homes destroyed by Hurricane Andrew in 1992. Slidell City in St. Tammany Parish lost half of their 10,000 homes. Hancock and Harrison Counties in MS suffered considerable residential damage, possibly as many as 25% or 24,000 units of the existing housing stock of 95,000.
- Non-residential losses -- New Orleans Parish losses were mostly residential while severe non-residential losses occurred in St. Bernard Parish, primarily schools and state offices.

### **Small Business (Fewer than 5 Employees) Pre-Katrina (Census data)**

#### **New Orleans MSA**

- Over half (53%) of all 26,362 firms in the New Orleans, LA MSA had fewer than 5 employees (2002 data). These firms accounted for about 5% of the 531,000 employees in the MSA and about 4% of the \$115.8 billion in receipts.
- Of the 14,000 small business firms (fewer than 5 employees), there were about 2,500 firms in the Professional, scientific, and technical services sector; 1,900 in Retail trade; 1,300 in both Construction and Health Care.

#### **Biloxi-Gulfport-Pascagoula MSA**

- Over half (52%) of the 6,272 firms in the Biloxi-Gulfport-Pascagoula, Mississippi MSA had fewer than 5 employees. These firms accounted for about 5% of the 127,000 employees in the MSA and about 4% of the \$18.6 billion in receipts.
- Of the 3,200 small business firms (less than 5 employees), there were about 550 in Retail, 450 in Other services, 400 in Professional services, and 320 in Health care.