



09/2005

Your Kiplinger Connection

Hurricane damage • More on Katrina • Selling

Hurricane damage

Katrina inflicted tragedy on millions in the coastal areas of Louisiana, Alabama, and Mississippi.

The U.S. economy also took a beating, though it escaped a devastating blow. A direct landfall on New Orleans and environs could very well have caused so much damage to vital energy and shipping infrastructure that GDP would have been slowed to a crawl.

Growth will undoubtedly be hobbled, with an initial hit over the next two months and a follow-up smack when winter comes.

2005 growth ... closer to 3% than to 4%. Short term, a combo of rising gasoline prices and transport bottlenecks will trim the pace of growth by half a percentage point or so.

Weeks of supply disruptions lie ahead for auto, steel, agriculture, and other sectors. Port and waterway repairs will come second to saving lives and meeting basic human needs. Alternative shipping routes will add to costs, as will freight firms' higher fuel surcharges.


A partial offset to the negatives: A rush of reconstruction money to the affected areas. Federal assistance funds should top \$20 billion.

The Federal Reserve may suspend its interest rate hikes if it appears needed to ease some of the aftereffects of the hurricane.

Gasoline prices will likely surpass \$4 a gallon in some cities in California, the Midwest, New England, and the Mid-Atlantic states. Gas stations in many regions may run dry. Bush's stopgap moves ... tapping the Strategic Petroleum Reserve to get oil supplies to refiners and suspending gas-blending requirements ... provide only limited relief.

Nationwide...an average of about \$3.25/gal. for several weeks. By mid-October, prices should start to ease, ending the year around \$2.50/gal., roughly where 2006 prices will average as well.



Kiplinger is your so
insight into the ecor
government. Visit tl
more information. 

GDP growth will dip below 3% in 2006, to around 2.7%.

Winter is likely to be quite sluggish, with consumers challenged by energy costs. Downtime for refineries now means less heating oil then, pushing prices to an average of about \$3 a gallon during the peak season. Similarly, the current disruption of natural gas production will show up in the form of steeper electricity bills after the weather turns cold. Figure on natural gas prices reaching \$12-\$14 per million Btu in winter.

Worse, the slower pace will make the economy even more vulnerable in the event of another blow ... dealt by Mother Nature or anything else.

More on Katrina

Few sectors will avoid the hurricane's wrath in the near term.

Firms are likely to scale back hiring in the next month or two, causing a temporary dip in an otherwise strong employment trend. Post-hurricane reconstruction will give a lift to hiring in a few weeks.

Automakers and other steel users face trying times. They pay \$10 a ton now to move steel up the Mississippi from New Orleans. Alternative land routes are likely to cost them up to four times as much.

Steel minimills will hike prices to offset rising energy costs. They make half of U.S. steel. A disruption of iron ore shipments moving by barge up the Mississippi may force steelmakers to trim output.

Aluminum-dependent companies will also be hit by similar delays. These include aircraft and shipbuilding, electronics, and construction.

Chemical firms will be short on ethylene for making plastics. Hurricane-hit refineries are principal domestic suppliers of ethylene.

Ailing airlines face more pain because of route disruptions and lost revenue. Delta, Continental, and United have major operations in New Orleans. The impact of Katrina on jet fuel will push weak carriers such as Northwest, Delta, and Independence Air even closer to bankruptcy.

The same goes for rail freight firms, which will see sales dip.

For retailers ... a mixed bag. Losses due to short-term closures will probably be made up later as reconstruction money starts to pour in.

Construction firms will benefit as they have in previous storms, even though a scarcity of some materials might slow their pace of work.

Katrina will contribute to a rise in property insurance rates of 10% to 15% next year for coastal areas, equal to this year's increase. Even without Katrina, insurers would be boosting rates by a fair amount. They expect more claims as weather patterns become increasingly volatile.

Selling

Minority consumers are fast gaining clout in American markets. Hispanics, for example, will boost their share of total spending to 9% by 2010, rising from 5.2% in 1990. Asians are likely to grab a 5% share of spending, increasing from only a 2.8% slice 15 years ago.

Among younger consumers, even more muscle is being built up. By 2020, 30% of consumers between the ages of 12 and 17 will be Hispanic. Marketers, ignore the trend at your peril: Kids exert a tremendous influence on family purchases of everything from food to furniture to cars.

Spanish-language media will thrive as ads on Hispanic TV networks and in print pick up. By 2007, they'll capture 8% of total ad spending.

Fast-growing Hispanic markets beyond New York City, Miami, Chicago, and southwestern border towns: Greensboro, Charlotte, and Raleigh in North Carolina; Columbia and Myrtle Beach in South Carolina; and Loudoun County in Northern Virginia.

© 2005 The Kiplinger Washington Editors, Inc.

Tell a Friend

Tell the Editor

AI