

Katrina Creates Long-Term Misfortune

There is nothing more important to our national economy right now than the impact that hurricane Katrina recently wrought in the South Central United States. It is hard to imagine the magnitude of destruction and the number of lives that will be irreparably changed by these events. Along with the suffering, heroism and sacrifice will come some political fallout and because of this, we may see major changes in economic policies of the current administration. It is clear that many warnings were given to government agencies, as well as the residents of the Gulf Coast, and that funds that were slated to be used to buttress the levees in New Orleans were diverted to military operations overseas.

One immediate effect of this natural disaster was the skyrocketing price of gasoline. Americans rushed to the gas station to fill up and long lines were seen for the first time in twenty years. It will be important to investors to watch now how the different car companies, who were to bring out new lines of large SUVs this year, react to this development. In life, as in the stock market, it is more fruitful to look at where the ball is going than where it is at the moment.

Looking ahead at the economy in the hurricane ravaged areas of the U.S., the plan is to pump out the water, allow the land to dry and then rebuild the city. I truly wonder whether it will be possible or if it is advisable to try to reestablish the ambiance and real estate values that were washed away when 150,000 properties were flooded, making this hurricane the most damaging natural disaster in the nation's history. Stocks, however, were up during the week of the disaster as the markets seem to be predicting that the ill effects on the overall economy will last for only one or two months.

For people directly affected by the hurricane, their misfortune will be longer lived. It is estimated that approximately half of the million or so jobs in the Gulf Coast region will go away. This will be one of the many costs that the taxpaying public will have to cover. The total cost of the disaster is estimated to be 100 billion dollars.

Insurance companies are on the hook for perhaps \$30 billion of that amount. The government's recently passed emergency aid program totals \$10 billion, and so the recovery budget is still short by about \$60 billion dollars. Through various charities, the public is estimated to meet about \$1 billion, or one percent of the cost.

According to an insurance industry information source, U.S. property and casualty insurers have a surplus of about \$400 billion out of which they can pay for Katrina's losses. Most people in the affected area did not have flood insurance because it was not available through private insurance companies. The Federal government, through its "National Flood Insurance Program", insured thirty to forty percent of the single family dwellings in the region. This is another cost the public will end up bearing.

Oil and natural gas prices were up because the Gulf region produces about one-third of the oil and one-fifth of the natural gas in the country. If oil prices stay above \$60 per barrel, the rest of the country will likely feel it through a slowdown in retail sales. Some forecasters predict nearly a two percent decline in the growth of the Gross Domestic Product, which is akin to slowing down from 70 mph to 35 mph on a freeway.

One question, which may or may not get debated in public, is whether it is worthwhile to the country as a whole to rebuild New Orleans and other communities on the same sites as before. It is people nationwide who will end up paying for reconstruction through higher insurance premiums, higher taxes and lower levels of social services. The alternative, almost unthinkable to many people, is to consider that Below sea level real estate, worth untold billions of dollars, might be better off being abandoned because of the possibility that it could again be destroyed, especially in an era of supercharged hurricanes that have increased both in frequency and intensity.

The costs of environmental cleanup from Hurricane Katrina are likely to be enormous. Given the large number of oil and gas production and processing facilities in the area, experts expect there to be many, many environmental disasters due to the flooding of storage facilities. Will these sites be abandoned without cleanup or added to Superfund sites that require inordinate amounts of time, money and expertise to contain? Is it smart to reconstruct facilities that are likely to be targets for future natural disasters?

It doesn't seem that the human tragedies and severe disruptions to the lives of a million people will adversely affect energy companies whose shares have risen since the disaster. Most of the corporate refining and transportation capacities were estimated to be back in full operation within a week of the disaster. It is amazing to see the recovery capabilities of these companies. It would be nice if individuals were able to get back on their feet so quickly. As reconstruction begins, economic activity will go up, though a continued downward slide of prices for airline and automobile companies will continue.

The most likely scenario, because it is the one that will invite the least controversy, is that New Orleans and the casinos along the Gulf Coast will be rebuilt with government aid. New Orleans may well end up looking more like Disney World than the birthplace of authentic American jazz. What can be done to help a million people recreate shattered lives, careers and educations? The issues are those of refugee populations. America has not had to deal with such large scale movements of people since World War II. We were up to the task then and I hope we are now as well.

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