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ПОСЛЕДСТВИЯ УРАГАНА КАТРИНА: ЭКОНОМИКА США

The US economy must have got used to hurricanes by now. According to the National Hurricane Center there has been 273 hurricanes in the past 150 years. That will make 17,7 per decade (6 of them ranking as 3-5 in Saffir-Simpson Category).

History has proven that natural disasters don't affect the economy seriously. They do harm in the short run – but then the period of recovery comes and Uncle Sam catches up on what he has missed.

Katrina is an exceptional hurricane as it was able to damage both the refineries and rigs in the Gulf Coast, flood Big Easy and kill plenty of people. Therefore Mr. Bush compared its aftermath to 9/11 tragedy and called the hurricane “the worst natural disaster that ever happened to the US”.

My research focuses on the effect of Katrina on the US economy as this is the subject I am particularly interested in. It can be divided into 3 related blocks:

1. The energy crisis caused by Katrina.

The harm done to mining and refining industries of the US coincided with a relative shortage of gasoline, as the driving season was in full swing. After tracking the changes in gas, oil and gasoline prices the following conclusion was made: gasoline prices were affected the most by the natural disaster (they went up 16.9 %!). This fact can be explained by almost inelastic demand for gasoline in the States: Americans love their cars!

Another part of the ‘Energy crisis’ block is devoted to the advantages of the US in front of developing countries within the energy crisis and helps to answer the question : why developing countries’ markets are falling rapidly and investors prefer American assets.

2. Major economic indicators’ analysis.

In this section the following things were investigated:

- The effect on economic growth. Despite turbulence from hurricanes and high energy prices, the economy is expected to log respectable growth this year and next. The National Association for Business Economics forecasts the GDP to grow by 3.6 percent for all of 2005 and 3.3 percent in 2006.

- The situation on the stock market. NASDAQ, Dow Jones, S&P declined sufficiently the week after Katrina struck.

- The dollar rate analysis. Dollar fell down against euro.

- Inflation dynamics. Katrina boosted energy prices and cost a huge increase in inflation. CPI was 1.2% up in September (the biggest rise in 25 years). PPI grew up 1.9% (the biggest rise in 15 years). In both cases core inflation remained moderate.

- Unemployment rate. The number of people thrown out of work due to Katrina and Rita totaled 363,000 on October, 6. This fact caused overall unemployment rise from 4.9 to 5.1 percent. As the country was settling down, evacuees returning to their homes, unemployment went 1 point back to 5 percent.

3. Effect on Government + Government reaction.

Trying to recover from Katrina’s devastations was a heavy load on President Bush’s administration that sometimes was too hard to bear.

First of all, a lot of interesting facts came out showing us that the government didn’t take the hurricane problem seriously. New Orleans has always been in danger of being hit by a hurricane.

Still funding for plans to strengthen the levees and prevent floods has fallen by nearly half in the last four years. The government just took the money to fight terrorism!

Another thing the government did was to destroy some 1 million acres of coastal marshland around New Orleans as part of its plan to reshape nature's waterways. That suited property developers but removed much of the city's natural protection against flooding.

Moreover, Mr. Bush officially acknowledged that the authorities had not been prepared for the catastrophe. The President wasn't there when he was needed – and who needs a flabby president?! Americans don't!

AP-Ipsos poll of President Bush's approval indicated a downfall from 42% to 39% right after Katrina struck. It finally slid to 7% in October. (Bush used to have 77% in 2002!). And the nation's disapproval of its government sure doesn't contribute to sustainable economic development.

My research tracked fiscal and monetary policies used by the government to cure the temporary economic downfall.

The fiscal policy was mostly focused on government spending. First of all, the House has already spent 62 billion dollars for hurricane relief. Secondly, it seeks for another 50 billion to spend next year. Unexpected oil price rise together with increased government spending contributed to the huge budget deficit of 319 billion dollars in 2005 financial year and will cause the deficit to increase next year.

Nowadays the US economy is suppressed by inflation. Federal Reserve is responding to such inflation pace by raising the federal fund rate (monetary policy). At September and November meetings a 0.25 % rise was approved and the rate went up from 3,5% to 4%. The rate is expected to reach 4.5% by February 1, 2006. However it is worth mentioning that FRS has been continually raising the rate since 2003 (it went down to 1% after the September 11th tragedy)

State and local bonds' rate are continuing to rise alongside with the federal fund rate. Finance Magazine once called the state bonds' rate of 4.5 “a psychologically important barrier” as US state bonds don't usually go that far. The red line was crossed in the end of October.

Rising interest rates are making American securities more and more attractive to foreign investors.

Conclusions. Katrina was one of the worst natural disasters in the US history that caused the energy crisis in the country and definitely affected the 3rd quarter economic indicators. At least as much as a 0.0025% GDP loss can do. Nevertheless, America proved to be strong enough to outlive the disaster and reboot its powerful economy in considerably short terms. The US government used to ignore the danger of hurricanes. Now it is doing its best to help the victims and derail consequences.