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Katrina Contributes to Drop in Spending

Personal Income Also Fell in August

By Nell Henderson

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Consumer spending plunged in August at the steepest monthly rate since the 2001 terrorist attacks as Hurricane Katrina slashed incomes, fanned inflation and caused \$170 billion in losses from property damage, the Commerce Department reported yesterday in its first tally of the storm's economic effects.

The report came the day after the Labor Department said 279,000 people filed new claims for unemployment insurance benefits because of Katrina, which struck the Gulf Coast on Aug. 29.

With energy prices still high, saving low, interest rates rising and consumer confidence plunging, analysts are widely forecasting that U.S. economic growth will slow through the end of the year as households and businesses reduce spending.

"It's clear that the economic impacts from the hurricanes [Katrina and Rita] will stretch well beyond the Gulf Coast region to all corners of the nation and beyond," said Scott Anderson, senior economist with Wells Fargo Economics. "Of great concern for the economy is the mood of the U.S. consumer."

Consumer spending fell 1 percent in August, after adjusting for inflation, partly because of a big fall in auto sales after a boom in July, when the nation's top three automakers offered employee discounts to all buyers. The last time spending dropped as much was in September 2001.

Personal income -- which comes from wages, salaries, rents, interest and other sources -- fell 0.1 percent in August; it would have risen 0.2 percent if not for the hurricane, according to the Commerce Department.

The hurricane hit shortly before the end of August, but the economic disruption began several days before as warnings of the approaching storm prompted Gulf Coast businesses to close, refineries and oil rigs to shut down, and residents to flee.

Even with falling incomes and spending, U.S. consumers collectively still spent more than their after-tax incomes in August, the Commerce Department reported. It was the third consecutive month that personal savings was negative -- the first time that has happened since the government started gathering such data in 1959.

Consumers were able to spend more than their take-home pay all summer by dipping into their savings, taking on more debt or selling assets that increased in value, particularly rapidly appreciating homes.

Federal Reserve Chairman Alan Greenspan, in a research paper released Tuesday, estimated that consumers gained an extra \$600 billion in cash to spend last year by selling or refinancing their homes, or through home-equity loans -- equivalent to 7 percent of after-tax personal income. In a speech that day, he also said that process may account for much of the decline in the personal saving rate over the past decade.

Thus, consumer-spending growth should slow and personal saving should rise if the housing market cools as mortgage rates climb, he said.

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SPCA volunteers Anna Strates, of Rockville, Md., left, and Cheri Templeman, of Medicine Lake, Minn., walk down a flooded street in the Ninth Ward of New Orleans after rescuing a cat from the rafters of a wrecked home Wednesday, Sept. 28, 2005. Teams of volunteers have been scouring the city in an attempt to rescue the hundreds of animals left behind when Hurricane Katrina hit New Orleans a month ago. (AP Photo/Charlie Riedel) (Charlie Riedel - AP)

Although mortgage rates remain low, they have moved up in recent weeks as rising energy prices led to fear of higher inflation, and as the Fed has indicated that it plans to keep raising short-term interest rates to prevent inflation from taking off.



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Consumer prices jumped 0.5 percent in August, according to the Commerce Department's inflation measure. Inflation rose to 3 percent in the 12 months that ended in August, up from 2.6 percent in the year ended in July, the department said.

Rising energy prices pinched household budgets, leaving consumers less money to spend on other items. After adjusting for inflation and taxes, personal income fell 0.5 percent August.

Wages and salaries, the largest component of personal income, rose 0.2 percent in August.

However, rental income declined \$88.5 billion and small businesses' income was cut \$12.2 billion, both calculated at an annual rate, because of uninsured property damage, the department estimated.

Insured property damage was estimated at \$70.2 billion in August, at an annual rate, though the insurance payments are likely to be made over time, an analyst said.

Katrina's other economic effects could not be separately identified and quantified, the department said.

On Friday, the Labor Department will release its first estimate of how many jobs were lost in September, and the unemployment rate for that month.

The Commerce Department report "is at the leading edge of a wave of hurricane-related bad (and distorted) economic data that will be released in coming weeks," Nariman Behravesh, chief economist with Global Insight, wrote in an analysis. "Employment, incomes and spending are all likely to be pulled down by the damage from Katrina and Rita and the ongoing impact on energy prices."

That downturn should be followed by an economic rebound next year as insurance, government and private money pours into rebuilding the Gulf Coast region, analysts said.



SPCA volunteers Anna Strates, of Rockville, Md., left, and Cheri Templeman, of Medicine Lake, Minn., walk down a flooded street in the Ninth Ward of New Orleans after rescuing a cat from the rafters of a wrecked home Wednesday, Sept. 28, 2005. Teams of volunteers have been scouring the city in an attempt to rescue the hundreds of animals left behind when Hurricane Katrina hit New Orleans a month ago. (AP Photo/Charlie Riedel) (Charlie Riedel - AP)