

Katrina, high energy prices to hit wallets

WASHINGTON (AP) - Hurricane Katrina caused \$100 billion in uninsured losses in August while consumer spending plunged by the largest amount since the September 2001 terrorist attacks, the government reported Friday.

Because of the devastation along the Gulf Coast, personal incomes fell by 0.1 percent in August, the Commerce Department reported. Incomes would have risen by 0.2 percent had it not been for the hurricane.

In another worrisome sign for the economy, consumer spending, after adjusting for inflation, plunged by 1 percent in August, the biggest decline since September 2001 as consumers, pinched by soaring gasoline prices, cut back in spending in other areas.

The sharp drop in spending raises concerns about consumers' staying power in the face of soaring energy bills. Consumer spending is closely watched because it accounts for two-thirds of the economy.

Analysts said the toll from Katrina and Hurricane Rita, which struck in September, is likely to depress economic activity for several months.

The worry is whether the surge in energy prices, partly reflecting the shutdown in production along the Gulf Coast, will so rattle consumers that the economy could be pushed into a full-blown recession. The Conference Board reported a sharp drop in consumer confidence in September.

Analysts, however, believe that the spike in energy prices seen in August and early September will not be enough to shut down consumers' appetite to spend on other items, although they are forecasting that economic growth in the current July-September quarter will be lowered by as much as a full percentage point.

The 1 percent drop in spending after adjusting for inflation compared to a 0.5 percent decline in spending before inflation was taken out. The difference largely reflected the fact that consumers were buying more expensive gasoline to fill up their cars during the month.

Income after adjusting for taxes fell by 0.1 percent in August after an increase of 0.4 percent in July.

ings rate remained in negative territory in August at minus 0.7 percent. That compared to a minus 1.1 percent personal savings rate in July, which had been the all-time low.

When the savings rate is in negative territory, it means that Americans are not only spending all of their after-tax income but they are dipping into savings accumulated in earlier months to finance

spending.

Adding to the decline in consumer spending in August was a falloff in sales of new cars, which plunged during the month after huge gains in July that reflected attractive incentive offers.

Before the hurricanes hit and gasoline prices surged above \$3 per gallon for a time, analysts had been predicting that economic growth in the current quarter would

come in at a sizzling 4 percent-plus level. Now analysts have shaved those forecasts to around 3 percent to reflect the lost jobs and lowered spending caused by the hurricanes.

Some economists believe that growth in the fourth quarter will dip even lower to around 2.8 percent as the country continues to struggle with the fallout from the hurricanes and higher energy

bills.

But the Congressional Budget Office said last Thursday it believed the impact from Katrina and Rita probably would be "more modest" than the CBO estimated on Sept. 6 for just Katrina.

The CBO said it now believes the hurricanes will cut growth by one-half of a percentage point in the second half of this year, with most

of that damage in the July through September period. By the final three months of 2005, spending on rebuilding will help to offset the economic damage, according to the CBO.

In its earlier report, the CBO said the potential impact on GDP growth probably would be from one-half of a percentage point to a full percentage point over the second half of the year.

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