

The Impact of Hurricane Katrina - A Look at Initial Employment Data for New Orleans

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Initial post-Katrina employment data helps quantify the devastation wrought by the hurricane on the New Orleans economy, and underscores the monumental task of rebuilding the economy in the months and years ahead. New Orleans lost 232,000 jobs, or 38% of its workforce, as compared with September 2004, an unprecedented loss in modern U.S. history. As Table 1 shows, no other area has experienced a similar decline in both percentage and absolute terms. Larger metro areas, such as New York and Los Angeles have lost similar numbers of jobs on an annual basis, although the percentage impact has been much smaller because of their larger total size. In percentage terms, the most significant employment declines have been on the order of 10% to 15%, most of these drops occurring in smaller metro areas. Furthermore, previous disasters, such as earthquakes in Los Angeles, firestorms in Oakland, or the events of 9/11 in New York, have not caused the same widespread devastation evident in New Orleans.

The number of jobs lost is likely to rise further in coming months, as employers that continued to pay employees for some post-hurricane period in spite of a lack of business, cease those payments until they are back in business again. Some businesses and residents have relocated to other areas and may never return, creating additional uncertainty about the long-term outlook for the metro area.

Nearly all sectors of the economy have experienced major losses, as shown in Table 2 on the next page. There are differences in the impacts and prospects for recovery, as discussed below.

Natural resources, which includes the oil industry, is the only sector to experience no net job losses as a result of the hurricane. It is the smallest sector of the economy, with just 8,800 jobs, and the sector posted a 6.0% gain for the addition of about 500 jobs in the twelve months to September 2005. The gain in jobs is most likely attributable to the effort to quickly rebuild and make offshore oil platforms operational again.

Government has been one of the least affected economic sectors to date, posting a 4.0% job loss between September 2004 and 2005, but employment will likely drop more in the near future. The Hurricane has led to serious erosion in the tax base, diminishing the ability for localities to pay employees. Many localities were struggling financially before the Hurricane and cannot afford to accept help from FEMA, which requires government entities to provide 25% of expenditures. In addition, much of the federal government assistance has come in the form of loans, which local governments are reluctant to accept because of uncertainty about their ability to make future

Worst Metro Area Job Losses In Absolute and Percentage Terms Jobs in Thousands

Rank	Metro Area	Year	Decline	
			Percent	Absolute
Top 10 in Absolute Terms				
1	New York, NY	1991	-5.2%	-258.0
2	Los Angeles, CA	1992	-4.5%	-178.2
3	Los Angeles, CA	1991	-3.7%	-153.0
4	New York, NY	2002	-2.5%	-130.5
5	New York, NY	1992	-2.6%	-124.6
6	Los Angeles, CA	1982	-3.0%	-108.3
7	San Jose, CA	2002	-9.9%	-100.7
8	Los Angeles, CA	1993	-2.5%	-96.9
9	Chicago, IL	2002	-2.3%	-88.2
10	Boston, MA	1991	-4.6%	-72.5

Top 10 in Percentage Terms

1	Laredo, TX	1983	-14.5%	-5.0
2	Altoona, PA	1954	-13.8%	-6.1
3	Casper, WY	1986	-11.9%	-3.9
4	Elkhart-Goshen, IN	1980	-11.4%	-8.7
5	York-Hanover, PA	1988	-11.1%	-18.8
6	Houma, LA	1986	-11.0%	-6.8
7	Houma, LA	1983	-10.9%	-7.5
8	Dubuque, IA	1982	-10.3%	-4.3
9	San Jose, CA	2002	-9.9%	-100.7
10	Janesville, WI	1980	-8.8%	-4.7

Sources: Bureau of Labor Statistics, Foresight Analytics

payments. Consequently, additional job losses are expected in the government sector as cash-strapped government agencies lay off workers.

New Orleans posted a loss of 16,500 **construction** jobs between September 2004 and 2005. During the month of September, New Orleans focused on recovery and clean up. By October, some rebuilding had begun, and the rebuilding effort will be a major, long haul. By comparison, Miami construction sector employment rose almost immediately following Hurricane Andrew in August 1992. By October 1992, Miami construction sector employment was surging, with the increase lasting through the end of 1993. The devastation in New Orleans is far greater, and insurance issues are more complicated because of the difficulty in determining whether Katrina damages are the result of the hurricane or floods that resulted from the storm surge. Additionally, it appears that no quick decisions are being made regarding what will be rebuilt, how it will be done, and who will pay for it. Foresight Analytics believes that New Orleans will ultimately experience a sharp and sustained increase in construction sector jobs,

but it will likely take longer for the growth to materialize than it did in Miami. Furthermore, if the decision is made to construct a barrier system strong enough to withstand the storm surge of a Category 5 storm, the currently estimated \$2.5 to \$3.5 billion project would generate a large number of jobs.

New Orleans faces a major marketing and rebuilding effort to revive its important tourism industry. **Leisure and hospitality**, whose 85,000 jobs represented almost 14% of pre-Katrina New Orleans' employment, posted a decrease of 38,600 jobs, or 46.5% of its base.* Most of the jobs lost are at hotels and restaurants. Some hotels and restaurants have reopened, but they are primarily housing hurricane relief workers. For example, the 1,110-room Sheraton New Orleans, one of the first hotels to reopen following Katrina, is largely contracted to FEMA workers. FEMA has booked more than 15,000 hotel rooms in Louisiana for up to six months for workers dealing with the recovery from hurricanes Katrina and Rita. In good news for this sector, the federal government recently agreed to pay millions of dollars in lodging taxes for its workers; it had previously been thought that, as part of the federal government, FEMA was not required to pay the hotel taxes. Lodging taxes help pay for the Convention Center, the Superdome, state contracts with professional sports teams, the Orleans school system, the Regional Transit Authority, the city budget and organizations promoting convention and tourism business.

Retail trade sector employment declined 40.7% for a loss of 27,300 jobs, including an almost 90% decline in grocery store employment. With the metro area largely evacuated, the need for many types of retail is limited. Stores are rebuilding and reopening, but employment will not rebound until residents return to New Orleans to shop in local stores.

With many schools and hospitals literally underwater, these facilities face major rebuilding efforts that could take years. However, because the metro area is largely devoid of residents, need for their services has been limited. **Education and health services** reported the loss

**New Orleans Employment Trends
Selected Sectors
Jobs in Thousands**

Sector	Employment			Change, 2004-05	
	Sep-04	Aug-05	Sep-05	Absolute	Percent
Total Nonfarm	610.4	615.6	378.4	-232.0	-38.0%
Natural Resources	8.3	8.7	8.8	0.5	6.0%
Construction	30.5	30.2	14.0	-16.5	-54.1%
Manufacturing	39.1	38.1	28.7	-10.4	-26.6%
Trade, Trans., and Utilities	120.0	122.6	77.8	-42.2	-35.2%
Retail Trade	67.1	67.4	39.8	-27.3	-40.7%
Grocery Stores	10.6	10.0	1.2	-9.4	-88.7%
Information	9.7	10.1	7.9	-1.8	-18.6%
Financial Activities	35.5	34.4	18.4	-17.1	-48.2%
Prof'l and Business Svcs	71.7	73.9	39.5	-32.2	-44.9%
Educat'l and Health Svcs	84.0	84.0	25.7	-58.3	-69.4%
Educational Services	23.1	19.9	11.9	-11.2	-48.5%
Health Care & Social Asst.	60.9	64.1	13.8	-47.1	-77.3%
Leisure and Hospitality	83.1	85.1	44.5	-38.6	-46.5%
Accom. and Food Svcs	69.0	71.1	38.4	-30.6	-44.3%
Other Services	22.5	22.3	8.4	-14.1	-62.7%
Government	106.0	105.0	101.8	-4.2	-4.0%
Federal Government	15.6	15.3	15.3	-0.3	-1.9%
State Government	28.3	27.4	27.2	-1.1	-3.9%
Local Government	62.1	62.3	59.3	-2.8	-4.5%

Sources: Bureau of Labor Statistics, Foresight Analytics

of 58,300 jobs, representing 69.4% of its employment base.

- **Health care and social assistance** was down 77.3% for a loss of 47,100 jobs, and losses are mounting. In late October, Touro Infirmiry, the only open general hospital in New Orleans, announced that it will lay off 500 employees, representing about one-third of its staff because its post-Katrina patient load does not justify its present staff. Although Tulane University Hospital plans to reopen in about a month, starting with the emergency room, the reopening of major local hospitals, including Charity, University and Methodist hospitals, as well as Memorial and Lindy Boggs medical centers, is not imminent.

* It is interesting to note that in the Gulfport-Biloxi metro area of Mississippi, half of the 30,000 jobs lost as a result of Katrina were in the leisure and hospitality sector.

- About 11,200 **educational services** jobs were lost as a result of the Hurricane. Families of 2,800 of the 55,000 students formerly served by the New Orleans Public School District have announced plans to return, but the reopening of the first NOPSD schools may be delayed beyond the planned date in November because of bureaucratic wrangling and in some cases, because teachers have no place to live. Ultimately, school openings will depend as much on demand as residents return to the city, as they will on the availability of money to pay salaries.

Because of the sheer magnitude of the economic impact and the delays in getting the rebuilding effort underway, Foresight Analytics believes that the economic picture for New Orleans will worsen before it starts to improve. It is quite likely that employment figures in the near future will show additional job losses, as public and private employers run out of money at stop writing checks to employees.

With the involvement of external stimuli - in the form of government expenditures, insurance claims settlements or new private investment - and successful marketing efforts by the tourism industry, we believe that the leisure & hospitality and construction sectors will lead an eventual economic recovery in New Orleans. Retail trade should pick up with the resumption of tourism and the return of residents who temporarily moved out of the area. Other sectors, such as manufacturing, finance and professional & business services will likely resume business once enough of the metro area's infrastructure has been restored. However, the longer the restoration of infrastructure and essential services takes, the less likely that temporarily relocated businesses will actually return, with potential negative long-term effects on the commercial real estate market. Foresight Analytics plans to monitor new developments closely.