

## FOMC Meets with Hurricane Impacts in Background

As the Federal Open Market Committee ([FOMC](#)), the Federal Reserve's policy setting arm, meets this week to discuss whether to change the federal funds rate, one new issue it will be considering is the impact of hurricanes Harvey and Irma on near-term economic growth.

As businesses and homeowners dig out and begin to rebuild, it is still too early to know the overall costs of the Texas and Florida storms. But, preliminary estimates indicate that the combined costs of Harvey and Irma could [exceed](#) those of Katrina, which reached [\\$160 billion](#).

Following the hurricanes, [several](#) economic forecasters have cut their estimates for third quarter GDP growth. Goldman Sachs took its [forecast](#) down 0.8 percentage point to 2.0 percent. [Moody's](#) reduced its projection by 0.5 percentage point, estimating the lost economic output from Irma could reach as high as [\\$16 billion](#) and Harvey up to \$11 billion.

### Changes to Q3 GDP Forecasts Following Hurricanes Harvey and Irma

Forecaster	New Estimate	Change
<b>DS Economics</b>	1.8 percent	-1.0
<b>Goldman Sachs</b>	2.0 percent	-0.8
<b>Macroeconomic Advisers</b>	2.3 percent	-0.7
<b>Moody's</b>	2.5 percent	-0.5
<b>Federal Reserve Bank of Atlanta</b>	2.2 percent	-1.2

Already, the temporary shutdown of refineries in the Houston and Corpus Christi areas have pushed gasoline prices higher, causing inflation to accelerate in August. The [Consumer Price Index](#) rose 0.4 percent last month, driven by a 6.3 percent increase in gasoline. Still, over the past 12 months, CPI rose a modest 1.9 percent and core inflation, removing food and energy, rose just 1.7 percent. The Fed's preferred inflation measure, the personal consumption expenditures price index excluding food and energy, is [even lower](#).

Consumers' outlook on the economy also has been affected by the storms. Consumer sentiment, as measured by the [University of Michigan's Index of Consumer Sentiment](#), declined from 96.8 in August to 95.3 in September. Without prompting, nine percent of respondents to the Michigan survey mentioned that Harvey and/or Irma would have a negative impact on the economy.

We also can expect to see an impact on the September employment numbers in Houston and parts of Florida. In September 2005, the month following Katrina, nonfarm jobs in New Orleans dropped by [more than 134,000](#), before falling an additional 50,000 the next month.

While the hurricanes will reduce GDP growth in the current quarter, rebuilding will boost economic activity, likely offsetting the negative impact from this quarter. But the exact timing of that boost depends on when insurance payments and government aid arrive. Congress has

provided [\\$15 billion](#) in hurricane relief, though much more will be needed to help people put their lives back to together.

As the FOMC begins its two-day meeting today, Puerto Rico is bracing for Hurricane Maria's expected landfall tomorrow. The costs of this hurricane season continue to mount. Low inflation has led the Fed to hold off, so far, from raising rates for a third time this year – with the hit to economic output from the hurricanes, the case for leaving rates unchanged only has gotten stronger.