The Washington Post

BUSINESS

Wednesday, September 7, 2005

MARKETS

DOW 10,589.24
UP 141.87, 1.4%

NASDAQ 2166.86
UP 19.79, 0.9%

S&P 500 1233.39
UP 15.37, 1.3%

POST-BLOOMBERG REGIONAL 277.42
UP 2.04, 0.7%

10-YEAR TREASURY
DOWN $4.38 PER $1,000
4.09% YIELD

Details, D3

CURRENCIES
109.53 YEN=$1
EURO=$1.2479

Also Today

Index

HURRICANE KATRINA: THE AFTERMATH

Revenue, the Second Flood

Retail Sales Skyrocket as Storm Survivors Buy Generators, Gas Cans

By Justin Gillis *and* Michael Barbaro
Washington Post Staff Writers

BROOKHAVEN, Miss. — The last winds of Hurricane Katrina were whipping the loblolly pines of southern Mississippi when Greg Newman showed up before 5 a.m. to open the Home Depot store he runs here. He found six customers huddled at the door in pitch darkness, wanting generators, and that afternoon, the line grew to 600.

He hit the phones to reel in truckloads of the precious machines. The store itself came to life on generator power, and soon the cash registers were ringing. By evening, Newman's customers had their lights and refrigerators working. "Nobody went home without a generator that night," he said.

In the days since Katrina hit, his store's sales volume has quintupled.

It's an unsettling but inescapable fact about natural disasters on the scale of Hurricane Katrina: Even before the tears stop flowing, the money starts churning. For companies in the right place with the right

See **SALES**, *D12, Col. 1*

REI

Wal-Mart ordered extra supplies of the Aqua-Tainer, a 7-gallon plastic jug.

For the Economy

Long-Term Impact Depends on Consumers

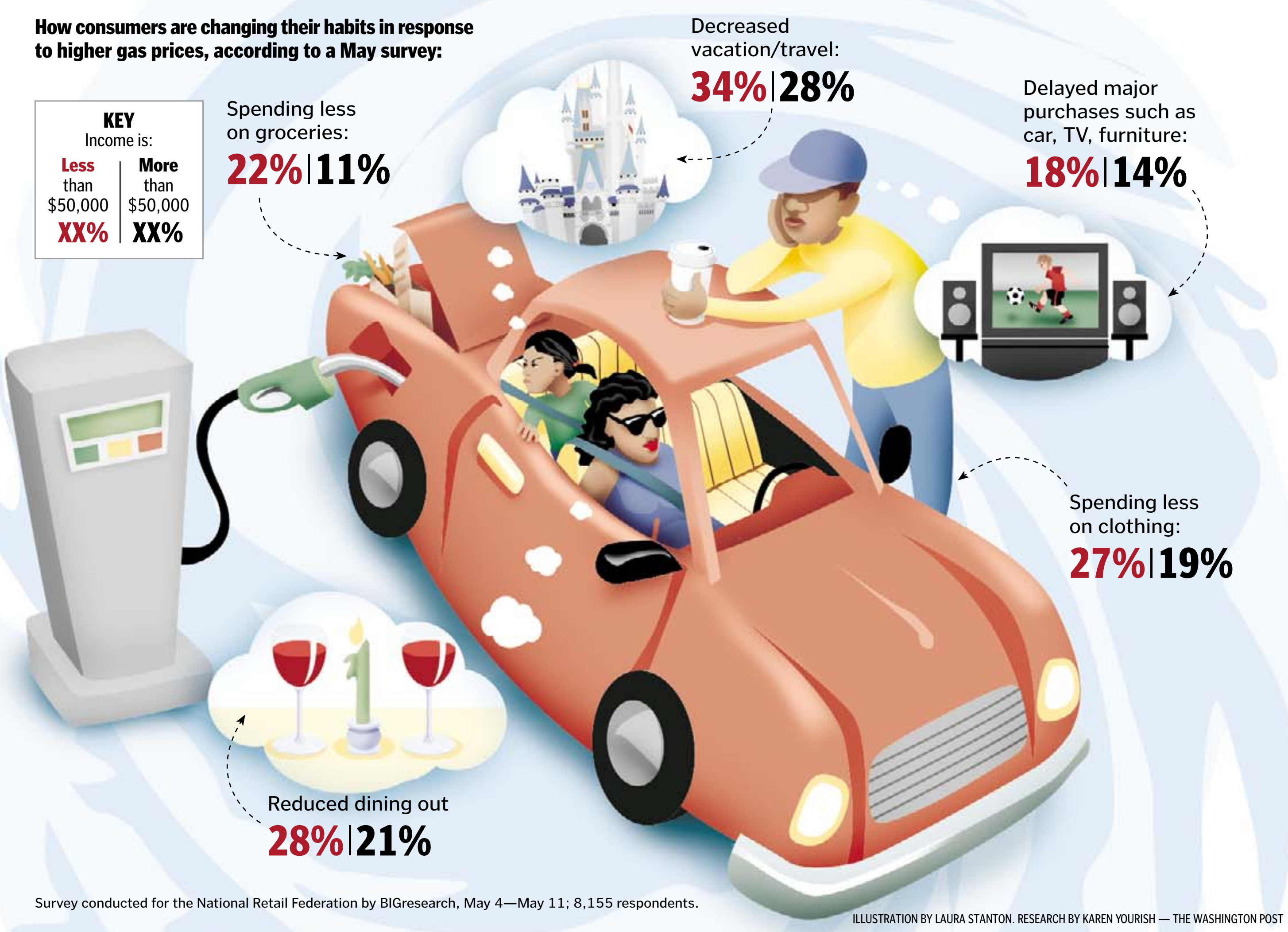


ILLUSTRATION BY LAURA STANTON. RESEARCH BY KAREN YOURISH — THE WASHINGTON POST

By Margaret Webb Pressler *and* Paul Blustein
Washington Post Staff Writers

The long-term economic impact of Hurricane Katrina will hinge in large part on how U.S. consumers react to the disaster and resulting surge in gas prices. Will they fall into the camp represented by Lisa Kays of the District or Heather Rories of Burke?

Kays, who works in international development, said the hurricane has forced big changes in her spending plans.

"It reinforced to me the need to save, to have cash," Kays said while sitting in a sandwich shop near Dupont Circle. "We've been thinking about buying a car, but after this, I'm like, no, it's not worth it."

Likewise, one of Kays's lunch companions said she and her boyfriend had planned to drive to New York over the weekend but settled on a day trip to Annapolis instead.

But a little farther down Connecticut Avenue, Rories, a librarian for a downtown law firm, said rising gas prices have had no impact on her spending or travel plans. She and her family drove to Charlotte over the holiday weekend, she said, and "every time we stopped, the gas prices had gone up."

"I just felt fortunate we could afford it," Rories said.

Consumer spending on food, clothing, services and big-ticket items accounts for about 70 percent of U.S. economic output. So much is riding on the extent to which Americans change their spending in response to high gas prices.

See **ECONOMY**, *D6, Col. 1*

The Insurance Industry

Surviving Katrina's Huge Damage Claims

By Albert B. Crenshaw
Washington Post Staff Writer

Hurricane Katrina seems likely to become the most expensive natural catastrophe in U.S. history, but unless insured damages go far higher than the current high-end estimate of $35 billion, the insurance industry should be able to pay the claims without threat to its own solvency, industry experts said yesterday.

Because of the nature of the storm and the type of damage inflicted, private insurers will probably bear only a fraction of the total losses suffered in Louisiana, Mississippi and Alabama — estimated at more than $100 billion by Risk Management Solutions Inc., a California firm that does computer modeling of damages from catastrophes.

But taxpayers, insurance ratepayers and others are likely to be feeling the economic effect of the giant storm for years to come, they acknowledged.

And some risk experts are starting to raise the question of how — or if — houses or other buildings in low-lying areas such as New Orleans should be rebuilt.

"There is a lot of variability" in loss estimates so far, said Robert P. Hartwig, chief economist at the Insurance Information Institute, an industry group, adding that insurers are expecting more than 1 million claims. Adjusters are already at work in some areas, though not yet in New Orleans.

But "the industry approached the '05 hurricane season in a position of financial strength," following eight

See **INSURANCE**, *D5, Col. 1*

BY BARBARA DAVIDSON — DALLAS MORNING NEWS

In Metairie, La., Jamell Hall-Cloy, 35, wipes away a tear as she searches her glove compartment for her insurance records.

STEVEN PEARLSTEIN

Refiners' Merger Good for Business, Not Consumers

Last week, as supply shortages sent the price of a gallon of gasoline as high as $6 in some markets, federal officials charged with protecting consumers quietly approved yet another oil industry merger, this one creating the nation's largest oil refiner.

Because of the rush of Katrina news, the merger earned hardly a mention in the general press. And yet by giving its blessing to Valero's $8 billion purchase of Premcor, the Federal Trade Commission not only reinforced its reputation as a patsy for the energy industry but demonstrated a stunning lack of political sensitivity.

Although the FTC and its staff never seem to make the link between industry consolidation, rising energy prices and

See **PEARLSTEIN**, *D3, Col. 1*

■ **Area gasoline shortages ease as pipeline delivery resumes.** | *D5*

■ **Bloggers provide neighborhood-specific news on the flooding.** | *D4*

Capital Automotive REIT Accepts $3.4 Billion Buyout

By Terence O'Hara
Washington Post Staff Writer

Capital Automotive REIT, a real estate company founded seven years ago by a group of local car dealers as a way to turn the land under their lots into cash, has agreed to a $3.4 billion buyout offer from a group of private investors.

Robert M. Rosenthal and John J. Pohanka, the co-founders whose Washington area dealership properties were among the first assets of the company, will reap millions in the deal. Rosenthal's common stock is worth more than $105 million, and Pohanka's is worth more than $48 million, according to Securities and Exchange Commission filings. Rosenthal declined to comment, and Pohanka could not be reached yesterday.

Shareholders of the McLean-based company, which has expanded rapidly in recent years and now owns the land under more than 300 dealerships around the country, will receive $38.75 a share, or about $1.8 billion.

The buyers, a group of unidentified investors advised by New York real estate firm DRA Advisors LLC, will also assume preferred shares and more than $1 billion of debt, making the total deal value about $3.4 billion.

Analysts had been predicting Capital Automotive's growth rate would slow this year after two years of rapid acquisitions. The purchase price was more than a dollar less than its 52-week high of $40.42 set in July, and only 9 percent higher than Capital Automotive's closing price on Sept. 2. After

See **CAPITAL**, *D4, Col. 1*

At a Glance

Capital Automotive REIT

- **2004 revenue:** $202 million
- **2004 net income:** $67.7 million
- **Real estate investments:** $2.5 billion*
- **Business:** Owns 345 properties in 32 states, which it leases to car dealerships. About 509 auto franchises operate on the company's land.
- **Headquarters:** McLean

*As of June 30.
SOURCE: The company

STEVEN PEARLSTEIN

Refiners Help Themselves

PEARLSTEIN, *From D1*

record profits, Wall Street investors surely can. Over the past year, shares in Valero are up 226 percent, which, as the Financial Times pointed out last week, makes Google (only 186 percent) look like a laggard.

Listen to what Valero's chief executive, Bill Greehey, had to say Thursday in announcing that the deal had closed: "We are in a new era for refining where I believe you will continue to see higher highs and higher lows for both product margins and sour crude discounts. And now, with 18 refineries, no one is better positioned to benefit from this than Valero."

Translation: This deal will do nothing for consumers, but it's a home run for investors.

Here's the situation, as far as I can make it out. Refineries in the United States produce about 18 million barrels of refined product a day for an economy that consumes about 21 million. A completely new refinery hasn't been built in this country in nearly 40 years. And although Valero and others have spent $47 billion over the past decade to expand existing capacity by 13 percent, demand has grown even faster.

The reason that supply has not kept up in this industry, as in others, is simple: The industry makes more money that way. And one way the industry is better able to enforce this gentleman's agreement against investing too heavily in new capacity is by reducing the number of players and making entry into the industry even more difficult than it is already.

The FTC uses a different analysis. Its staff finds no evidence that this merger — or any of the dozens of others they have approved — gives the acquiring companies the power to raise prices. After all, even with this latest refinery deal, no company controls more than 13 percent of the national market nor more than 20 percent in any region.

But that analysis misses the point. As long as the industry can coordinate its investments, keep supplies tight and free-ride on OPEC price fixing, there is no need to unilaterally raise prices. In the mismatch of supply and demand, the "free" market does it for them.

The industry likes to explain away the lack of adequate refining capacity by arguing that government regulation makes building a refinery virtually impossible. The last time we heard the "government regulation" excuse, it was from Vice President Cheney during the California energy crisis. It turned out our energy-maven vice president didn't know what he was talking about, and that the real reason for skyrocketing prices was that Enron and the others were secretly manipulating the market by strategically withholding supply.

In the case of oil refineries, there's no doubt that, given voters' natural antipathy to having a refinery in the neighborhood, finding a new site requires much time, money and patience. But when President Bush floated the idea last year of speeding site approval by locating new refineries on inactive military bases, Valero's chief operating officer declared he wasn't interested. When you look at industry rates of return, he told The Post's Justin Blum, it's just not worth it.

This is the oil industry's other Big Lie. Every year, Fortune Magazine, in its Fortune 500 issue, calculates the rate of return on shareholder equity for each major industry. Last year, when oil prices were a lot lower than they are now, the average return for both independent refiners and integrated majors was 23.9 percent. This year, it's been even higher. And over the past decade, according to Fortune, the return on equity in the sector has averaged 16 percent, well above the investment hurdle rates in most other sectors of the economy.

Valero is a great company and a real success story. Since 1997, it has bought up lots of lousy refineries, fixed them up and run them right — in the process adding the equivalent of two refineries' worth of new capacity. Essentially, it has put the lie to the self-serving complaint from the integrated majors that there was no money to be made from refining and from other downstream operations.

But what the country needs isn't a bigger Valero — it's more Valeros, challenging the majors, investing heavily in new capacity and competing for market share. By approving the merger with Premcor, the FTC has reduced the chance of having that kind of full-throttle competition in an industry that desperately needs it.

Steven Pearlstein will host a web discussion at 11 a.m. today at washingtonpost.com. He can be reached at pearlsteins@washpost.com.

MARKETS

Stocks Gain on Potential Pause by Fed

By Ben White *and* Kari Lydersen
Washington Post Staff Writers

NEW YORK, Sept. 6 — Estimates for damage caused by Hurricane Katrina approach $100 billion. As many as 1 million people lost their jobs. Many Wall Street economists believe the hurricane will slice as much as 1 percent off economic growth this year, and some fear the economic blow will be much worse.

So why has the stock market risen almost every day since Katrina hit, including a 141.87-point, or 1.4 percent, rally in the Dow Jones industrial average on Tuesday?

Traders and money managers offered a few possible explanations, foremost among them a widespread belief that the Federal Reserve, seeking to head off a hurricane-induced downturn, may pause its campaign of interest rate increases when it meets later this month.

Lower rates help propel stocks because they make it cheaper for companies to borrow money and expand. They also make stocks attractive compared with lower-yielding investments such as bonds.

Traders also attributed the financial market resilience to a sharp drop in oil prices over the past few days, a strong report on the economy's service sector and a belief that spending on rebuilding in the Gulf Coast region will drive up earnings for many companies such as retailer Home Depot and energy service firm Halliburton.

"There are upsides and downsides to the hurricane," one trader outside the New York Stock Exchange said Tuesday morning, using the coolly detached language of the marketplace. "Right now, what's really driving the rally on the floor is the feeling that the Fed won't raise rates again right away."

The trader spoke on condition of anonymity because he was not authorized to speak publicly. But his comments were echoed by several Wall Street strategists. "You've got some pretty learned people right now predicting a Fed pause," said Phil Dow, chief equity strategist at RBC Dain Rauscher.

Dow said the biggest driver of Tuesday's rally was the drop in oil prices, which followed announcements that industrialized nations would release 60 million barrels of crude from their reserves and signs that production and refining capacity in the Gulf were returning. Gasoline futures sank 12.87 cents, to $2.055 a gallon.

BY DAVID KARP — ASSOCIATED PRESS

Charles Manos, left, and Joseph Farina work on the floor at the New York Stock Exchange. Traders were counting on the Fed to stop raising interest rates.

Lower oil prices, combined with the surprisingly strong report on growth in the service sector, helped spark big gains for retailers. Nordstrom gained $1.90, or 5.7 percent, to finish at $35. Retailers suffered last week on fear that high gas prices would cut into consumer spending.

Other indicators also gained. The Standard & Poor's 500-stock index rose 15.37, or 1.26 percent, to 1233.39. The Nasdaq composite index added 25.79, or 1.2 percent, to 2166.86.

Bonds, which rallied last week on fear of an economic downturn, dropped on Tuesday. The yield on the 10-year Treasury bond, which moves in the opposite direction of price, rose to 4.09 percent, up from 4.03 percent. The dollar rose against the yen and the euro.

At the Chicago Board of Trade, home to commodity and bond futures trading, some traders described increased uncertainty caused by Katrina while others said they saw little effect. "There's a lot of uncertainty in the grain room," said Jason Pope, a trader in wheat options. "A vast percentage of our exports go through New Orleans, and it's been closed. It's uncertain when it will open."

For the agriculture market, Katrina "hasn't done much," said trader Peter Neagle. "Initially they said it would be bad, since all the grains come out of the gulf, but it really hasn't been affected."

Lydersen reported from Chicago.

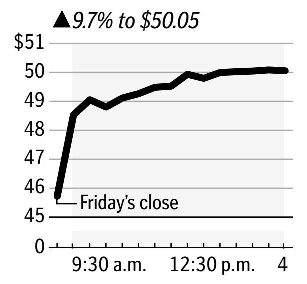
Complete stock tables *begin on Page D7*
Global markets *Page D5*

TUESDAY: SECTOR BY SECTOR

How components of the S&P 500-stock index performed

Consumer discretionary	1.70%
Health care	1.56
Industrials	1.38
Information technology	1.30
Telecommunication services	1.25
Consumer staples	1.23
Financials	1.12
Utilities	1.12
Materials	0.73
Energy	0.69

SOURCE: Standard & Poor's via Bloomberg News



Barr Pharmaceuticals

The drugmaker agreed to partner with Teva Pharmaceutical Industries Ltd. on the launch of generic versions of Sanofi-Aventis SA's Allegra allergy tablets.

Indexes

▼ **New York Stock Exchange composite index** fell 12.17, to 7518.96.
▲ **American Stock Exchange index** rose 6.17, to 1686.21.
▲ **Russell 2000 index** of smaller-company stocks rose 11.15, to 674.48.

Volume

▲ **NYSE:** 1.93 billion shares, up from 1.64 billion on Friday. Advancers outnumbered decliners 8 to 3.
▲ **Nasdaq:** 1.43 billion shares, up from 1.15 billion. Advancers outnumbered decliners 2 to 1.

Commodities

▼ **Crude oil** for October delivery: $65.96, down $1.61.
▲ **Gold** for current delivery: $444.40 a troy ounce, up from $444.20 on Friday.

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