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Big Storms Leave Small Marks on the U.S. Economy

Studies show business slows during and after hurricanes hit, but rebuilding leads to a boost in economic activity

The awning of a gas station was torn off by Hurricane Florence in Wilmington, N.C.PHOTO: JIM LO SCALZO/EPA-EFE/REX/SHUTTERSTOCK

Por
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Hurricanes upend lives and destroy wealth, but leave little lasting imprint on the broader economy.

That is one of the main takeaways from an examination of the economic effects of storms in recent years.

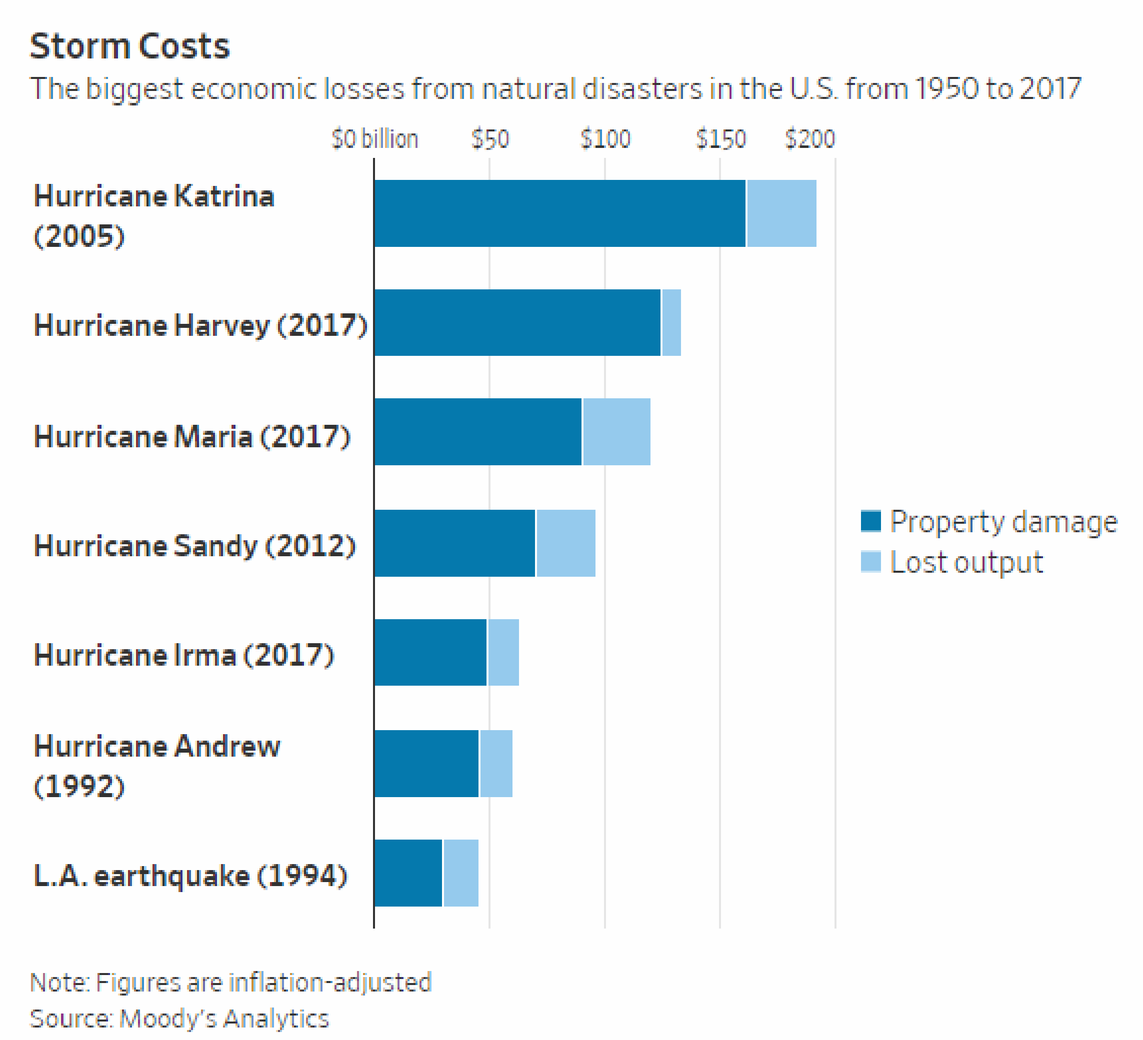
With Hurricane Florence hitting the U.S. East Coast, and potentially more storms to come in the weeks ahead, it is a time to assess the economic impacts of natural disasters.

Hurricane Harvey last year flooded the nation's fourth-largest city by population, Houston, destroying $125 billion worth of property, according to estimates by Moody's Analytics Inc. But lost economic output was just $8.5 billion, a barely perceptible sliver of more than $19 trillion of national economic output, according to Moody's.

For the U.S. economy as a whole, output grew at a healthy 2.8% rate in the quarter when Harvey hit Texas. Payroll employment growth slowed in the weeks after Harvey, rising just 14,000 in September, and then bounced back with growth of 271,000 the following month. Individual claims for unemployment benefits briefly climbed, and then resumed a trend of shrinking to historic lows.

Storm Costs

The biggest economic losses from natural disasters in the U.S. from 1950 to 2017



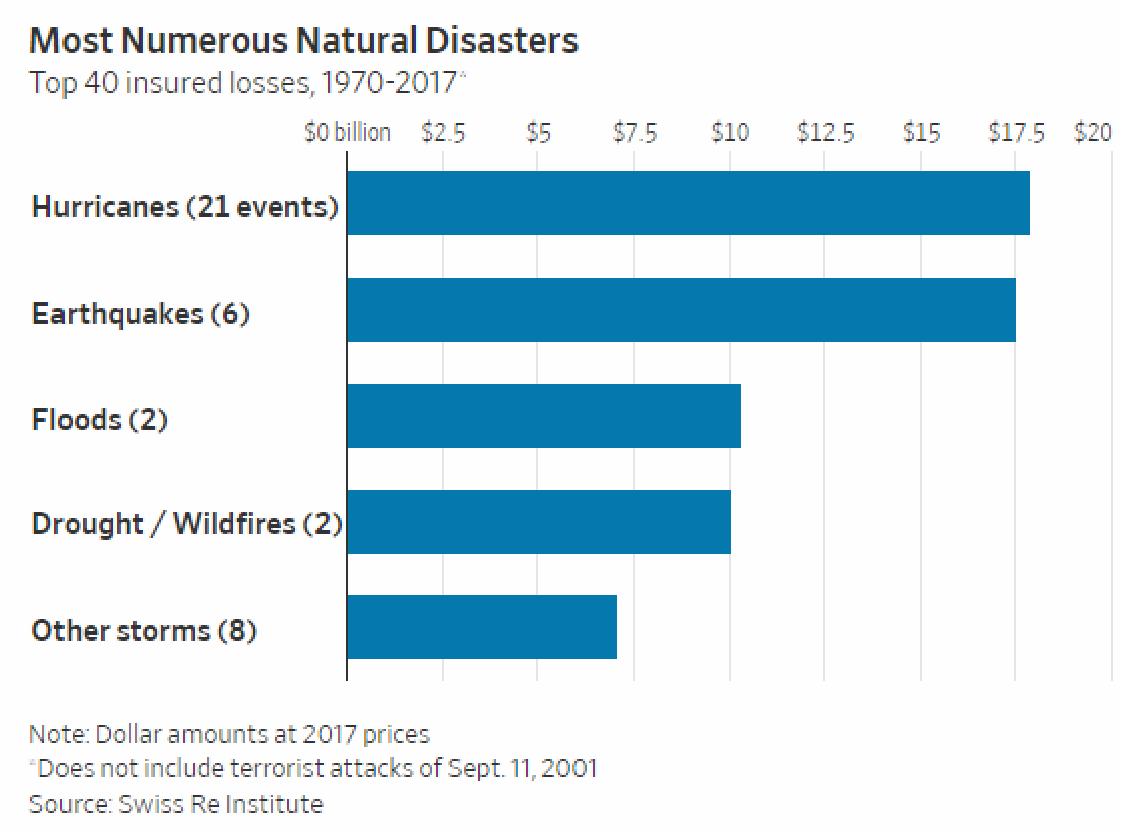
Studies show that business might slow down during and immediately after storms hit. Restaurants and clothing stores lost foot traffic on the Atlantic coast after Hurricane Matthew in 2016, according to a Federal Reserve study. (1.1) However, before long, rebuilding and restocking starts, leading to car purchases and construction that boost economic activity to replace property that was wiped out. Houston saw sectors like retail, restaurants and trade recover quickly. Matthew led to a bump in grocery-store sales before and after the storm.

Economic growth is not a proxy for well-being, and natural disasters like hurricanes destroy lives and wealth even if they don't make a huge dent in the nation's economic output. Money spent on property repairs may boost gross domestic product in the short-term, but it comes at the expense of discretionary spending households would have chosen instead.

And some local economies can be devastated by a storm and bear long-running scars, especially ones plagued by poverty or poor infrastructure. Employment in Puerto Rico dropped 35,000 after Hurricane Maria last year and still hasn't recovered. In New Orleans, shocked in 2005 by Hurricane Katrina, employment and economic output still haven't returned to pre-Katrina levels.

But even in those cases, local devastation typically doesn't hit the national economy. When Katrina hit New Orleans, the broader economy grew at a robust 3.6% annual rate, one of the best quarters in the last expansion. Property damage from Katrina—at $161 billion—far outnumbered lost economic output—at $31 billion—according to Moody's.

A 2014 study on the economic impact of Katrina by economists Tatyana Deryugina, Laura Kawano and Steven Levitt found that Katrina destroyed more than 200,000 homes and had large and persistent impacts on where people live—yet the impact on the wage income, employment and total income of the individuals affected by the storm was "small and mostly transitory."
"Within just a few years, Katrina victims' incomes fully recover and even surpass that of controls from similar cities that were unaffected by the storm," the research found. (1.2)



Businesses in hurricane-affected states also tend to adapt. “If you’re a manufacturer and you’re sourcing materials for your process and you normally get them in South Carolina [or] in North Carolina...you might make a call and say, ‘Hey, can we get these from somewhere else?’ ” said Ben Herzon, economist at Macroeconomic Advisers.

Economic impacts depend in part on where storms hit. Gulf-coast storms threaten to damage U.S. energy infrastructure, pushing up fuel prices for households and businesses nationally. Every penny increase in gasoline reduces consumer spending nationally by $1 billion over the course of a year, estimates Ryan Sweet, economist at Moody’s Analytics. East Coast storms don’t bear the same risk.

That all leaves an encouraging prognosis for Florence’s economic impact. There is energy infrastructure in Florence’s path, he said, including an oil refinery and liquid natural gas terminal in Savannah, Ga., up to 12 nuclear power plants, and natural-gas storage in Savannah, Charleston, S.C., and Wilmington, N.C. Still, he said, “I don’t

think this hurricane's impact on U.S. energy prices nationally will be as significant as Harvey was."
Economic might is also less concentrated in Florence's path. Charleston was the 73rd-largest metropolitan economy by gross domestic product in 2016, Myrtle Beach was 144th and Wilmington was 162nd.

In all, Florence's projected path through North Carolina, South Carolina and parts of Virginia and Georgia could impact 5% to 10% of the U.S. population, said Mr. Sweet.

Though the imprints of hurricanes on the broader economy are rarely significant, these events can cause mayhem in economic statistics, making it harder for policy makers to read them. U.S. purchases of cars grew at a 16.6% seasonally adjusted annual rate in the fourth quarter last year in part because households were replacing vehicles lost in storms, and then dropped at a 12.7% annual rate in the first quarter. That led to a surge in measures of overall economic output and then a slowdown.

At the Fed's late-January policy meeting, nearly five months after Harvey, policy makers were still trying to sort through the statistical noise. "It was noted that spending on durable goods to replace those damaged during the hurricanes in September may have provided a temporary boost to consumer spending," minutes of the Fed's meeting said.

That means that while the storm itself might not upend a long-running expansion, economists could be talking about Florence for months to come.

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