

Hurricane Harvey could be the costliest natural disaster in US history — here's how we'll know the true cost



Flooded cars near the Addicks Reservoir are shown as floodwaters from Tropical Storm Harvey rise Tuesday, Aug. 29, 2017, in Houston. AP/David J. Phillip It will take several months to work out the full impact of Hurricane Harvey on the US economy.

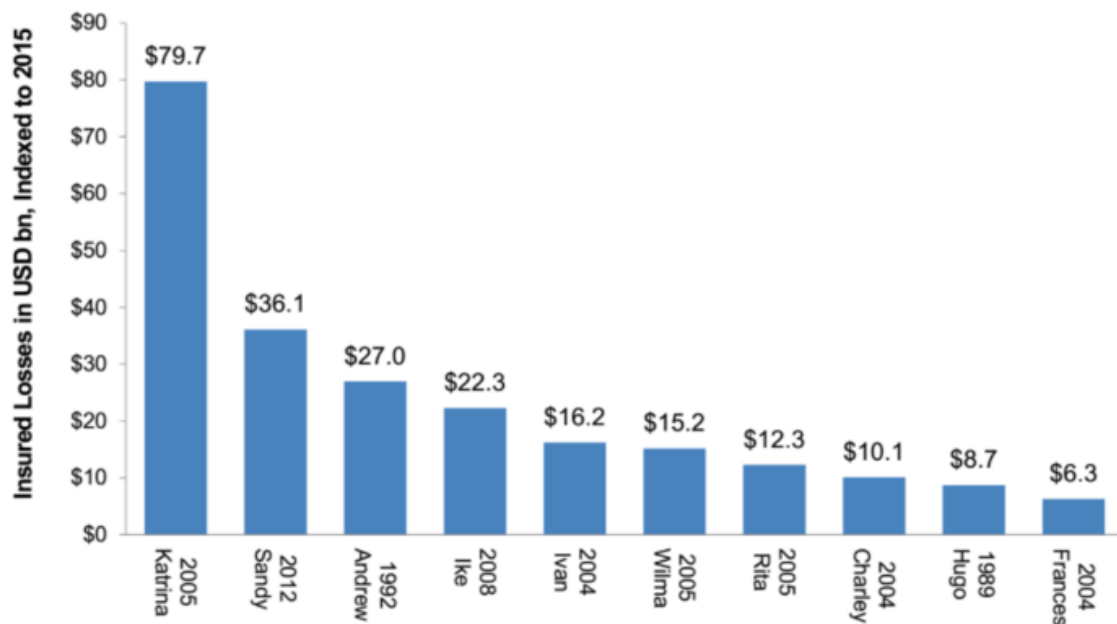
So far, the consensus is that it won't cause that big of a hit to the overall economy's growth, although its personal impact already is and will continue to be far greater.

"We expect the effects of Harvey to be substantial and lasting," UBS economists said in a note. They added that it's difficult to forecast the full impact, even by comparing this to previous hurricanes, because each one is unique.

Here's how economists are calculating its impact:

The cost of Harvey

Exhibit 5: Most Costly US Hurricanes



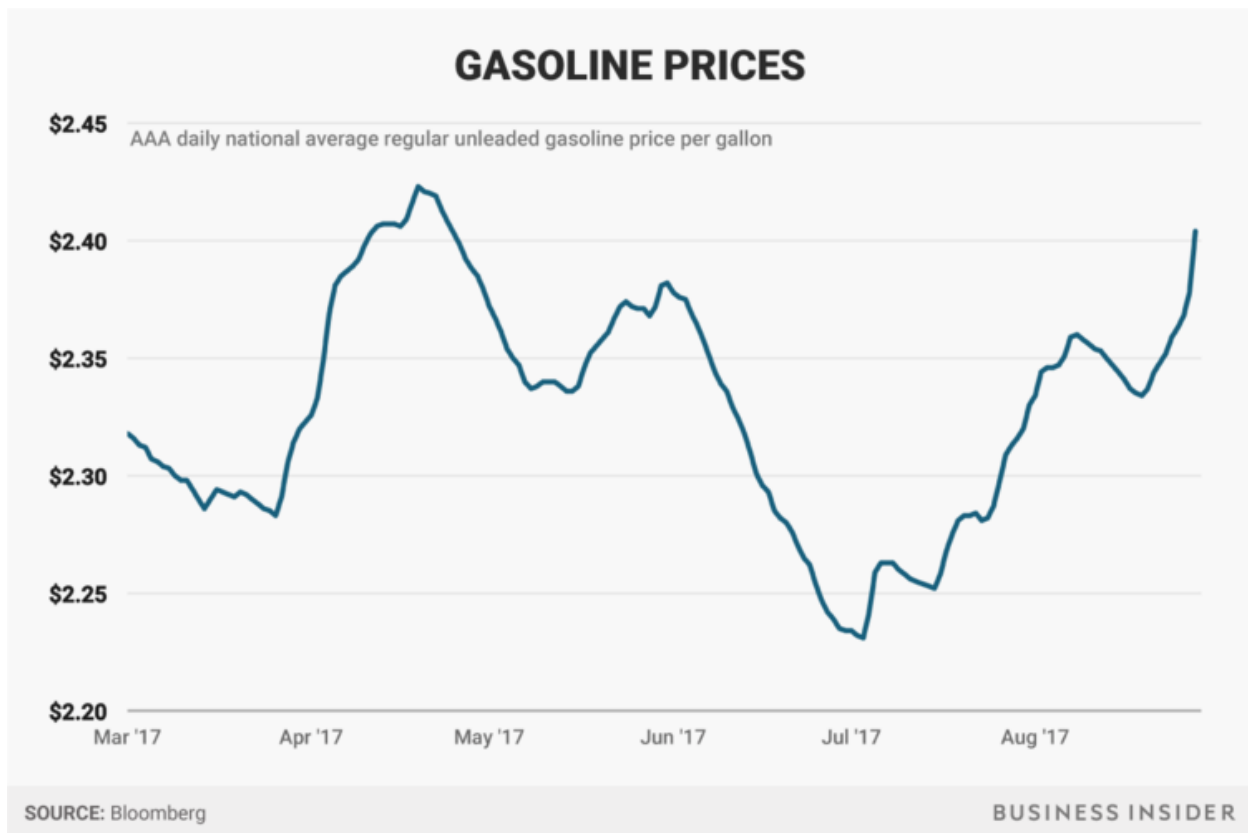
Source: Swiss Re Sigma, Morgan Stanley Research

Morgan Stanley

AccuWeather forecasts that Harvey would be the most expensive natural disaster in US history, at about \$160 billion.

Other estimates are more conservative, but rising. According to data from the risk modeler Enki Research cited by Bloomberg on Wednesday, the hurricane could cause \$75 billion in economic losses. That's up from \$42 billion Tuesday.

Gas prices



Andy Kiersz/Business Insider

Drivers are already paying more at the pump amid shutdowns of oil refineries in Texas.

Prices compiled by AAA showed that the average cost of a gallon of regular unleaded gas was \$2.40 per gallon on Wednesday, up from \$2.34 a week earlier.

That's because shutdowns have slowed the flow of gas from the epicenter of Texas' oil refinery industry, which processes nearly one-third of America's crude oil. Earlier on Wednesday, the Motiva Port Arthur refinery, the largest in the US, began shutting down as flood waters rose.

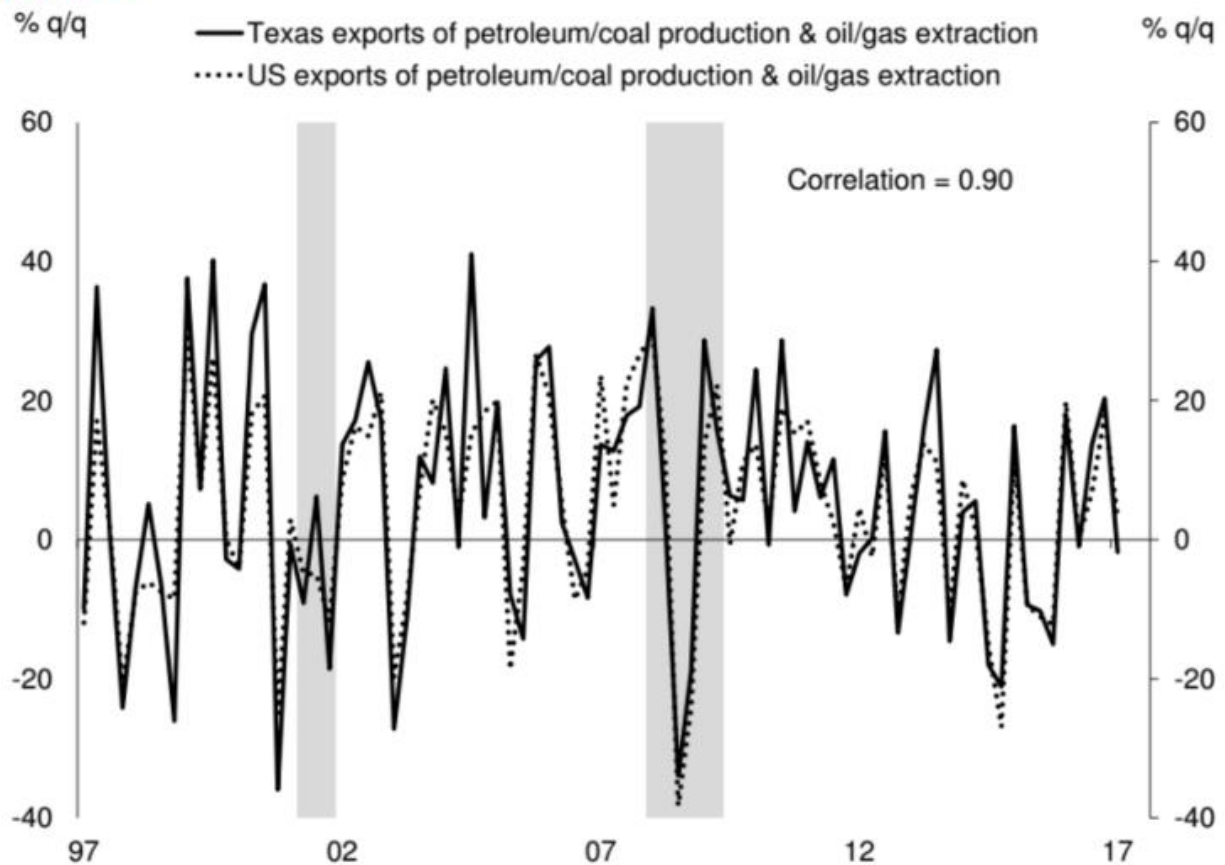
And because refiners are demanding less crude oil, prices are falling. West Texas Intermediate crude, the US benchmark, is down 4% this week.

"You've got a little less Eagle Ford production, and a little bit less Gulf of Mexico production, but it's nowhere near the demand that's been taken offline from the refiners," said Rob Thummel, a portfolio manager at Tortoise Capital, which manages \$15 billion in energy assets.

Thummel said the sheer demand for gasoline would have the refineries back up and running as soon as they can. Goldman Sachs estimated that it could take "several months" for demand to return to pre-hurricane levels.

Exports

Figure 1: Hurricane Harvey will likely have a large temporary drag on energy exports



Source: WISERCEN, Haver Analytics & Deutsche Bank

Deutsche Bank

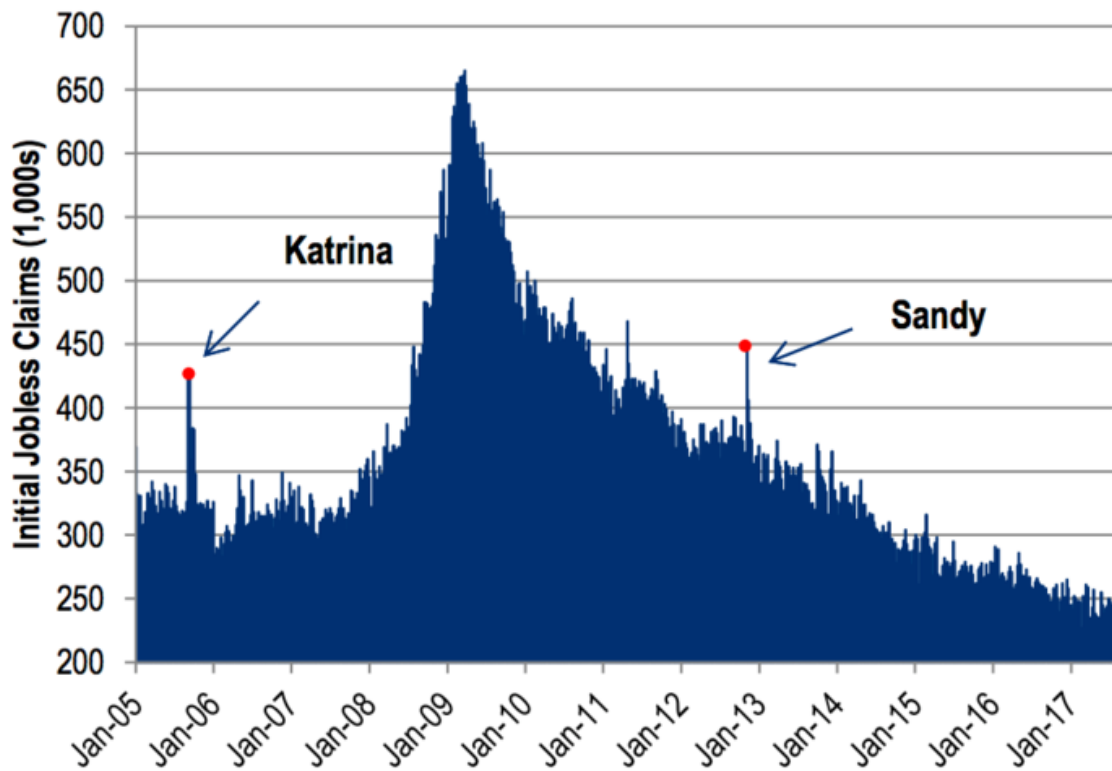
The US has become a bigger exporter of oil, and activity in Texas is strongly correlated with the national level.

According to Deutsche Bank, Houston accounted for 21% of chemicals exports in the second quarter.

"Harvey could potentially drag on H2 real GDP growth by as much as -20 basis points (bps)—mainly through disruptions to exports," said Brett Ryan, a senior US economist, in a note Monday.

Jobs

Figure 5. Jobless claims will likely spike in coming weeks



Source: Citi Research, Haver

Citi

For Morgan Stanley, the first place to look in the economic data for the impact of Harvey is in initial jobless claims. That's the weekly tally of people who file for unemployment benefits for the first time.

In a note earlier this week, the firm's US economists pointed out the spike in initial claims in Louisiana after Hurricane Katrina, and in New Jersey after Hurricane Sandy.

They also suggested looking into the components of the monthly jobs report that show the number of people who were out of work or worked part time because of bad weather.

The hurricane is unlikely to have a notable impact on the headline number of jobs added, and definitely not in Friday's jobs report because the survey week that includes the 12th of the month was before the hurricane.

"Moreover, we are a few weeks away from the next survey period in September and Houston and its surrounding areas will have at least begun to climb out of the mess left in the wake of Harvey by then," said Ellen Zentner, Morgan Stanley's chief US

economist, in the note. "According to the BLS, severe weather tends to have a much greater impact on hours worked, as opposed to payroll counts."

Car sales

Harvey may have a more immediate impact on the auto sector.

Up to half a million flooded cars and trucks could be scrapped, according to a Cox Automotive estimate cited by CNBC.

Auto sales, already in a slump this year, could be dragged lower when the latest monthly numbers are released Friday. Evercore ISI estimates the drag at between 100,000 and 200,000 vehicles.

Auto insurers will deal with claims for several months. For investors, now is a good time to bet against their stocks, according to David Rosenberg, the chief economist at Gluskin Sheff.

"If you are looking for short opportunities, look no further than auto insurers with heavy Texas exposure — like State Farm, Allstate, Progressive, Geico ... some of these stocks are up more than 20% so far this year," he said in a note Wednesday.

Housing

Exhibit 1: Homebuilder Community Exposure to South TX Disaster Areas

Builder	Ticker	Total Observed Communities*	Communities in a South TX Disaster Area					Market Share in Houston**
			Federal Disaster Area	% of Total	State Disaster Area	% of Total	Total	
CalAtlantic	CAA	743	42	5.7%	23	3.1%	8.7%	2%
D.R. Horton	DHI	1,403	29	2.1%	34	2.4%	4.5%	10%
KB Home	KBH	305	24	7.9%	26	8.5%	16.4%	4%
Lennar	LEN	984	58	5.9%	40	4.1%	10.0%	9%
LGI Homes	LGIH	85	8	9.4%	5	5.9%	15.3%	3%
Meritage	MTH	349	37	10.6%	18	5.2%	15.8%	3%
NVR	NVR	579	0	0.0%	0	0.0%	0.0%	0%
PulteGroup	PHM	541	15	2.8%	20	3.7%	6.5%	3%
Taylor Morrison	TMHC	278	42	15.1%	6	2.2%	17.3%	4%
Toll Brothers	TOL	388	11	2.8%	0	0.0%	2.8%	>2%
TRI Pointe	TPH	181	21	11.6%	0	0.0%	11.6%	>2%

*As of July 2017

**LTM as of 2Q17

Sources: State of Texas, FEMA via CBS News, Hanley Wood, Company Websites, BTIG Research

BTIG

One reason why Harvey may not vastly harm the overall economy, according to Goldman Sachs, is that the rebuilding efforts in the future could offset slowdowns elsewhere.

"The result for builders in the short run is likely to be substantially delayed home closings and a dip in new orders in the region," said Carl Reichardt, an analyst at BTIG, in a note Monday.

A dozen homebuilders including D.R. Horton, Lennar, and KB Home are exposed to the South Texas disaster area, BTIG noted.