



The Economics of Hurricanes

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Hurricanes are hateful things, but they can have surprising impacts on our economy.

First, the bad news. A direct hit from a major hurricane destroys a community's infrastructure with devastating, long lasting economic consequences. Many people whose homes are destroyed will leave the area. Many businesses, especially small businesses, do not survive. Consider poor Homestead. More than a decade after hurricane Andrew struck, the area is still depressed. Homestead Air Force Base never reopened and the downtown core remains depressed to this day. Pensacola and Punta Gorda are still reeling from last year's storms, and it will take five or more years for a full recovery.

Surprisingly though, most hurricanes have positive short-run economic effects. As long as the basic infrastructure is restored quickly, the economy bounces back amazingly fast for a variety of reasons. First, repairs and reconstruction work stimulate the building and materials sectors of the local economy. Second, repair crews steam in, boosting hotel occupancy and spending money in the local economy. In fact, Orlando had record-setting hotel occupancy rates in September and October of last year, and these are typically very weak months for hotels. Third, insurance money and aid flow into the economy, further stimulating spending.

Fourth, in reaction to the storms we all went out and bought generators, chain saws, and all manner of equipment that normally we would not buy. Just go look in your garage and you will probably notice stuff you bought last year, spending that boosted local retail sales. And I'd wager that most people did not take a vacation last summer; I know that I stayed home and cut down trees and cleaned up my yard instead of going out of state. So, collectively, most folks stayed home and spent their vacation money locally on gasoline, chain saws, and batteries, all of which boosted the local economy rather dramatically.

Fortunately, hurricane season occurs at the seasonal low point for tourism. Therefore, our tourist oriented economy does not lose much business during a typically slow period anyway. If we are going to have hurricanes, let them be in September and October. Furthermore, since the area's infrastructure was quickly restored, there was no longer term damage. However, it is true that repeated hurricanes can damage the economy over the longer term. It is important to communicate to the marketplace that yes, a hurricane hit, but the area remains open for business after the clean up. Advertising and communicating are expensive. And businesses and homeowners will invest more in protecting their property and purchasing more generators.

This is Hank Fishkind for 90.7 FM, WMFE News.