



The Economic Impact of Hurricane Sandy

Lives changed forever: Before we discuss the economic impact, I want to express my heart-felt sadness for those families who have lost loved ones due to Hurricane Sandy. No amount of state-of-emergency government money or insurance payments can replace those lost lives. For the families that they leave behind, Hurricane Sandy will be a storm they will never forget.

Overall Economic Impact: It was recently estimated that the damage from Hurricane Sandy will be in the \$20 billion range. Last year's Hurricane Irene cost \$15.8 billion and Hurricane Katrina, the most destructive hurricane in the U.S., cost a staggering \$108 billion with 1,200 lives lost. Despite the damage from Hurricane Sandy, most economists think that there will be little disruption in economic growth in the short run. The reasoning is that any activity due to reconstructing the damaged areas will be offset by any slowdown in other sectors of the economy. Let's look at a few sectors and see which ones I think may be hurt and which ones might benefit.

Insurance: According to Morgan Stanley, U.S. insurers have more than \$500 billion in capital, a large enough cushion to withstand the losses from Hurricane Sandy. Some of the bigger insurance companies would take the brunt of the losses since they have a higher "market share" but still not enough to be overly concerned.

Autos: Any losses in this sector should be short term. If consumers were planning to purchase a new car before the storm hit, they might simply shift their purchases a few weeks later after things settle down. This sector might even benefit if cars damaged during the storm need to be replaced. And for those cars that can be salvaged, auto parts stores might see an increase in sales. But discretionary spending in the retail sector might be hurt by the need to replace a necessary part (see **Retailers** below).

Airlines: Approximately 19,000 flights have been cancelled leaving travelers across the globe stranded. It could be a week before air traffic is back to normal; and once it is, revenue will return to normal. But this disruption could affect the bottom line in the short term since airlines have only so many planes and so many pilots. Even though less money was spent on fuel and other things when airlines shut down, I don't think it was enough to offset the lost revenue. It is difficult to catch up or "buy forward" like it is in the auto industry.

Energy: Six of the biggest refineries in the Northeast either shut down totally or cut production. Although demand was reduced during the hurricane since it kept drivers off the road, there could be supply problems as things return to normal—if there is such a thing after a storm like this like this. With gas stations looking to replenish their supply, the production cuts could limit the amount of gas the stations receive, causing a short-term supply

problem. Look for short-term price spikes until the refineries are up and running to full capacity.

Wall Street: Wall Street was closed Monday and Tuesday, the first time since 1888 that the exchanges were closed for two consecutive days because of weather. The exchanges were designed to provide investors with fair and orderly trading and the NYSE chief thought that this would be difficult if many traders did not want to come to work with the risk of personal injury. With few traders on the floor, trading volume would be extremely low. Some companies that were scheduled to report their quarterly earnings postponed their reports until next week.

Retailers: I think this sector could suffer more losses than any other sector. Entering the crucial holiday season, the disruption could cost retailers billions. Retailers collect up to 40% of annual revenues during this time, and the longer stores take to get up and running again, the worse it will be. Consumers might need to cut back on their discretionary holiday spending because these funds will need to be used to replace items destroyed during the hurricane but not covered by insurance; or they might cut back if overloaded insurance companies are slow to cut checks. Restaurants are part of this retail sector, and I think some of these establishments will be forced to close because too much revenue has been lost for them to remain in business.