



Hurricanes and the Florida Economy

Growth in Florida's economy and labor markets has accelerated strongly in the last twelve months. The state's unemployment rate dropped a full percentage point, reaching an all-time low of 3.6% in August 2005. Our state also led the nation in job formation, creating 252,600 new jobs in the twelve-month period from August 2004 to August 2005. Could this latest advance in economic activity be the silver lining to the damage, destruction and human suffering wrought by the four hurricanes that pummeled Florida a year ago? Will the Florida economy benefit from the devastation caused by Hurricanes Katrina and Rita?

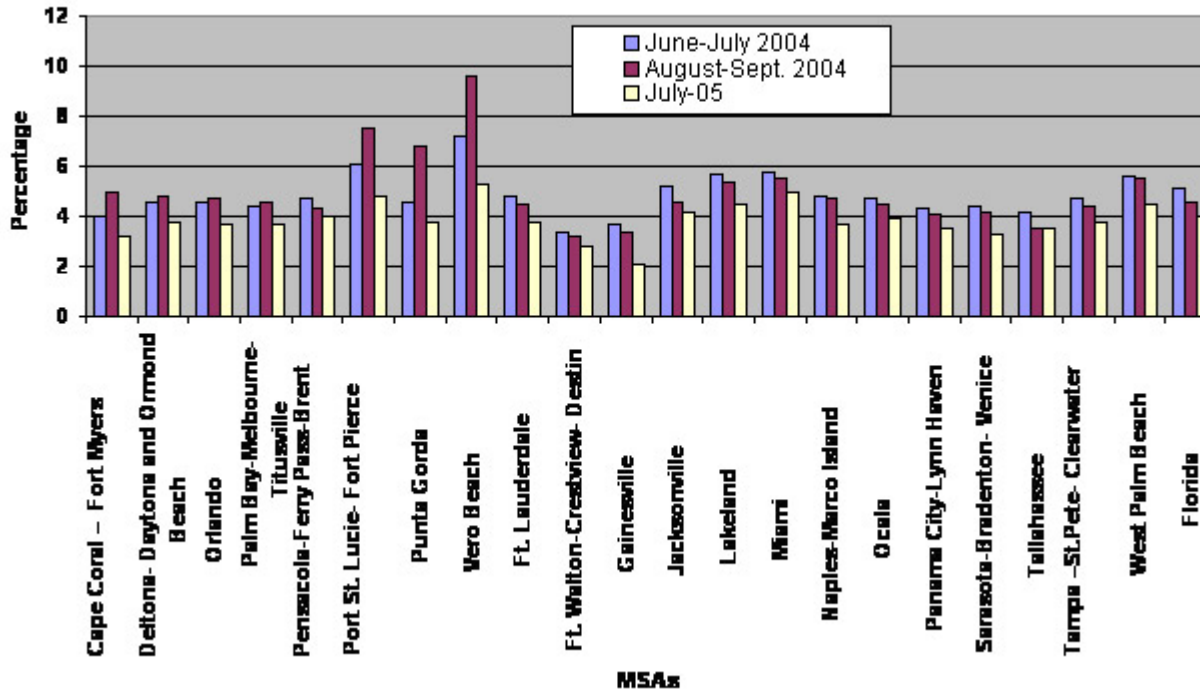
The answers are a resounding NO! Natural disasters are not an economic development tool, although the comments of some analysts seem to suggest otherwise. The confusion rests on a vital distinction between the stock of productive assets and wealth, such as physical and human capital, and the flows of such things as new jobs and higher incomes.

Hurricanes cause adverse economic shocks as their damage diminishes the supply of productive assets and destroys wealth. Moreover, as the economy's capacity to produce goods and services is reduced, fewer jobs can be created, income gains slow, and these disruptions can set off a chain reaction of unexpected adjustments throughout the economy.

Rebuilding after storms merely replaces productive assets that they destroy. Rebuilding does not, on balance, add to the overall supply of productive assets and wealth. Additionally, the human and non-human resources employed during re-building would otherwise have been used to increase the economy's stock of productive assets and wealth had the natural disaster not occurred. It is also important to note that those who lose wealth and productive assets as a direct consequence of a storm, those who have their lives and livelihoods disrupted, those who indirectly suffer a loss of wealth in paying for the rebuilding, and those who benefit from the rebuilding may not be the same. Natural disasters redistribute wealth.

The accompanying graph shows that the average unemployment rate in each of Florida's Metropolitan Statistical Areas (MSAs) for two months (June and July 2004) prior to the onslaught of four hurricanes compared to two months (August and September 2004) in which the hurricanes hit. The graph also shows the unemployment rate for each MSA in July 2005 - about a year after the hurricanes - and job growth for each MSA in the twelve months from July 2004 to July 2005 - the latest data available.

Unemployment Rates Before and After Hurricanes in Florida MSAs



Source: U.S. Department of Labor, Bureau of Labor Statistics

The first eight MSAs listed in the above graph bore the brunt of the four hurricanes. Note the following:

- The unemployment rate in each of these MSA rose – in many cases dramatically – in the immediate aftermath of the hurricanes. Pensacola is the only exception.
- The unemployment rate in every other MSA fell after the hurricanes, continuing the general trend in the state.
- A year after the storms the unemployment rate in each of the primarily affected MSAs was significantly lower than before the storms.
- Job growth in the primarily affected MSAs varied from torrid to tepid, suggesting an outflow of people and drop in the labor force

accounted for the decline in unemployment in some MSAs.

- Personal income growth in Florida slowed to an anemic 0.6 percent rate in the third quarter, 2004, the period of the storms, but rebounded at a strong 3.5 percent rate in the next quarter.

While the net effect from hurricanes is zero to negative, in the wake of Katrina & Rita, Florida might benefit, albeit at the expense of others, in several respects. Population growth and the associated demands for a range of goods and services could accelerate as people at least temporarily migrate to our state. Florida tourism might gain as conventions and visitors relocate from the Gulf Coast. Segments of the agricultural sector, especially sugarcane, could advance in the aftermath of damage to Louisiana's sugar crop. Florida's seaports might also accommodate some international shipments of agricultural products that previously were transported abroad via New Orleans. Floridians who supply resources used in reconstruction, such as building materials and equipment, could also see a higher demand for their resources.

At the same time Floridians will have to pay their 'fair share' of the \$75 plus billion in federal aid directed towards rebuilding in the Gulf Coast. This will put pressure on the federal and some state budgets. The one-half to one percentage point decline expected in national economic growth as a result of Katrina and Rita, about \$55 billion to \$110 billion, means people will have less income with which to purchase Florida's goods and services. Higher prices, for at least a while, in a range of products are already occurring. Gasoline is the most visible of these. The recent run-up in gasoline prices from the \$2.50 to \$3.00 per gallon price range will add roughly \$250 million per month to Floridians' gasoline bills, leaving less income to spend elsewhere. Heightened uncertainty, rarely good for the economy, could also dampen economic activity. Re-construction will increase the cost of new construction, renovations and repairs. It is uncertain whether these higher costs will add to or diminish the robust housing markets.

The historic policy response of government at all levels to natural disasters and the adverse economic shocks they cause has been to institute new programs, expand existing ones, and directly or indirectly hike taxes to finance the increase in spending. While this traditional approach can be viewed as well intentioned and potentially beneficial, perhaps it is time for governments to also consider tax relief as a valid policy response to adverse economic shocks. Florida's passage of property and sales tax relief in response to the four 2004 hurricanes is an example of this type of thinking.

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