Ask the Experts: How Hurricanes Affect Our Wallets & the Economy

by John Kiernan on November 12, 2012

We all know that Superstorm Sandy was devastating, costing more than 110 people their lives, damaging countless homes, leaving thousands of folks across the country without power, and throwing a major wrench in business operations. But what will the storm’s ultimate economic impact be? How can we minimize costs in its aftermath? And are there ways that we can better prepare for hurricanes in the future?

To answer these pressing questions and more, we went to the experts – professors and staff specializing in fields such as meteorology, natural disaster research, risk prevention, and economics from some of the universities that are most vulnerable to and familiar with hurricanes, including Florida Atlantic University, the University of Miami, Florida State University, the University of North Carolina – Wilmington, and Troy University.

The Impact of Sandy & Hurricanes in General on the Economy

First, we learned that Sandy could end up being one of the most destructive hurricanes ever. According to Patrick F. Maroney, who is both the Kathryn Magee Kip Professor in Risk Management/Insurance at Florida State and the Director of the Florida Catastrophic Storm Risk Management Center, insured losses resulting from Sandy are likely to be somewhere in the $10-20 billion range, while total economic losses are expected to reach $30-50 billion. If the high-end of that range proves accurate, Sandy would therefore be the second most expensive hurricane in history.

Those figures might shock many out there, but when you consider the domino effect of damage caused by a hurricane, its prodigious cost is perhaps more understandable. Basically, it all boils down to direct damage and logistics, according to Dr. Dan Sutter, the Charles G. Koch Professor of Economics at Troy University, which is located close to the Gulf Coast in Montgomery, Alabama. In other words, there is more to the story than simply having to repair damage to your home or business and dealing with power outages.

“Some of the businesses that might have to close could be parts suppliers, Dr. Sutter said. “If part suppliers can’t operate, then obviously many of the companies that they’re supplying those parts to are then going to have to suspend operations. That’s particularly true in our modern economy with so many businesses relying on just-in-time production. They don’t keep extensive inventories; they rely on a transportation and production network working in smooth operating order. So, if that supply chain gets interrupted for any reason, which could also include transportation disruptions from either the shutdown of the airports or if there were damages to highways.”
As you might expect, Sutter says that this is a bigger issue when storms like Sandy hit areas that are relatively inexperienced with hurricanes.

“The more frequent the disruption is going to be, the more likely the businesses are going to take preparations ahead of time to try to reduce the impact of a natural disaster like Sandy on their operations,” he said. “They will take extra deliveries in advance of potential disruption of a supplier, or if they have multiple suppliers, they might be able to shift orders to a supplier that’s unaffected by the storm. With advance forecast of the storm, you can make some of these adjustments more readily. … Other businesses can take steps to help prevent damage to their facilities directly. In many cases, businesses will invest in generators or back up power sources like that.”

With that being said, Sutter also points out that hurricane damage isn’t all bad when it comes to business.

“There are other businesses that are obviously going to experience a disaster like that as a boon to their business. Cleanup companies, debris removal companies, building supply companies, contractors – there will be many businesses that experience the disaster as an actual boon to their business. Overall, the money that people are expending to repair damage is just being diverted from other things that they would probably rather be spending it on.”

**Hurricane Cost & Damage Mitigation**

Perhaps the biggest overarching theme that emerged in talking with these university officials well-versed in all things hurricane is how important preparing ahead of time is to minimizing the impact of a hurricane.

“I think folks don’t engage in mitigation – that is home hardening, or structure hardening for commercial buildings – because number one: they think it’s not going to happen to them,” Maroney said. “Number two: they think the federal government will provide assistance, and number three: folks generally think if they expend monies for mitigation measures that the payback is going to be over too long a time period.”

Maroney says that’s flawed thinking because insurance deductibles are much higher when damage comes as a result of a named storm and by focusing on mitigation prior to such a natural disaster, you can actually reduce out-of-pocket costs. Nevertheless, it’s still an uphill battle convincing folks to shell out cash for hurricane prevention if they live in an area that’s only affected once in a blue moon, according to Dr. Attila Hertelendy – both a certified paramedic and a professor in Florida Atlantic University’s College of Business who specializes in healthcare policy, business continuity, and risk and emergency management.

“It’s harder to convince people to spend money on mitigation if they’ve not really experienced what can happen if things go wrong,” Dr. Hertelendy said. “Things like putting hurricane shutters [on your home] or making sure that there are no trees close to the house that can fall or even things during the hurricane. … Tragically, some of the deaths that occurred were when people went out to take photographs or something and a tree fell on them or they went too close to a live wire. People who’ve experienced [a hurricane] know not to do that, so just more education, outreach as well as preparation and mitigation measures that can be taken both at the government level and by citizens is what’s needed.”
Unfortunately, people whose only experience with a hurricane is a false alarm might also be inclined to take things too lightly.

According to Dr. Hertelendy, “Sometimes what tends to happen too is that people if the last time they were not affected, they tend to downplay the danger of what’s coming or the warnings. You saw that from the news reports of what happened; in some places people decided to stay in their homes because they thought, ‘Oh last year they kept warning us about Irene and it wasn’t so bad, so we’ll just stay in our homes again and nothing will happen,’ and those were some of the areas where actually people lost lives.”

So, what exactly should you do if you want to safeguard your home or business from the ill effects of a hurricane? Florida State’s Maroney says that making sure your home is properly elevated and has a sound roof is of critical importance. More specifically, he recommends trimming your trees and making sure that whoever installs your roof does the following:

- Puts on a secondary water barrier or tapes the seams between the sheathing
- Uses longer nails, ring shank nails, and a more frequent nailing pattern on sheathing
- Uses high quality felt
- Properly installs high-quality shingles
- Reinforces the gables (if you have a gable roof) and garage door

He also suggests cataloguing your possessions and considering flood insurance (even though the federal flood insurance program is $18 billion in debt).

“A big problem with this storm has been the problem that we’ve had in Florida as well is the storm surge causes an awful lot of damage and, of course, that’s not covered under private homeowner’s polices. The flood damage would be covered under the federal program, so folks need to start seriously considering buying flood coverage number one. … Just because you’re not required to buy flood insurance by your lender doesn’t mean you shouldn’t consider buying it anyhow.”

Oh yeah, and according to Maroney, “Putting tape on your windows – people still do that – it does absolutely no good whatsoever.”

**What to Do When a Storm is Imminent**

In order to find out what people should do when a serious storm is barreling down on their doorstep, we turned to Stan Harts, the director of Environmental Health & Safety at UNCW. He too stresses the old Boy Scout adage – be prepared.

1. **Know Who You’ll Turn To:** “This phrase goes around a lot in emergency management circles and that is, ‘the first time you meet a responder or the first time you meet your contractor that’s going to help you shouldn’t be after the event.” You should meet them before, have that relationship. They need to know you and your expectations. Everything from fuel suppliers to restoration and repair contractors to debit removal, you need to have that in place because resources get very scarce after the impact.”

2. **Maintain Communication:** “Plan lots of alternate forms of communication. We have satellite phones, radios, a variety of different tools so that we can communicate if land lines go down. One of the little-known facts: texting takes less bandwidth than, obviously, voice calls, so many times in disasters texts get through when voice calls do not. That’s a really valuable tool.”
3. **Prepare for the Long Haul:** “Plan to be self-sufficient for three to five days, and then just listen – listen and make sure you’re monitoring. When they say an evacuation of a certain area is warranted, heed that advice. Some of the biggest problems we see people get into is when they don’t leave a beach community or when they go surfing in a hurricane because the waves are great.”

4. **Be Ready for Anything:** “It’s what we call an all-hazards approach. I want to think what I would do, not in relationship to a wildfire, a hurricane, a nuclear emergency. I want to think about the options of A: ‘I’m going to be holed up in my house for five days, am I self-sufficient? or B) Do I know where I’m going if I have to evacuate? Nowhere in that did I take into account the [specific] hazard. … There’s what we call ‘shelter in place and evacuate.’ Those two options, if you have those planned, no matter what the hazard is, you’re prepared.”

**Handling the Aftermath**

Once a storm has passed, it’s time to rebuild, and much to chagrin of Mr. Romney, that’s where agencies like FEMA become crucial.

“At the government level, the agency that residents would look to would be FEMA. I would suggest that folks certainly register with FEMA,” Maroney said. “FEMA’s goal is to provide some immediate aid to those who aren’t covered by insurance and those who need some emergency monies for shelter and so on. But even if you’re perhaps not qualifying for those FEMA benefits, I think folks should still register because there will be some perhaps Small Business Administration loans available and so on. … FEMA can help all affected residents, even those who perhaps have insurance or second homes because FEMA can help with loans and assistance through other federal agencies.”

Unfortunately, there isn’t always enough help to go around, and with more than 40,000 folks displaced after Sandy, long-term housing is sure to become a crucial issue.

According to Dr. Hertelendy, “One thing that came about in Florida was there was greater talk of post-disaster housing after the storms that we experienced in 2004 and 2005, and that led to the state pushing counties and developing pilot programs to try to identify ways in which displaced people could be housed because FEMA temporary housing is only for a certain period of time.”

Dr. David Letson from the University of Miami also recommends that people should:

- Avoid driving through flooded areas
- Watch out for downed power lines that might be hidden under debris
- Stay out of restricted areas until officials clear your return
- Hydrate and eat well
- Use commonsense

Finally, there’s also been talk of certain policy changes that could help protect Northeastern areas like New York City in the future. Among them are calls for increased focus on coastal building and the issue of climate change. The idea of building flood gates around NYC has even been floated by some.

Whatever we decide to do, hurricanes aren’t going anywhere, so we need to figure out how to learn from them and minimize their impact moving forward.