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Market View

How do hurricanes impact economies and rate cutting cycles?

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At a glance

- Hurricanes not only cause destruction but have a lingering impact on labour markets.
- Cars and houses are the highest value goods affected by these storms, specifically car prices, the costs of building materials and insurance premiums.
- Markets will be watching closely to see if the storms that ravaged the Eastern United States this autumn will impact policy decisions.

The devastation and destruction left by Hurricanes Helene and Milton in the United States this autumn will extend beyond the loss of lives and property for years to come. Severe weather can cause severe disruption to the labour market by prompting job losses and downturns across industries. These storms have the power to reshape the US jobs market and economists expect they will complicate employment data collection, which ultimately affects policy makers' decisions. Below we look at some of the immediate and long-term effects of catastrophic storms.

EVs pose unique risk

Hurricanes naturally pose significant risks to cars, with storm surges often leading to mass write-offs. The impact for electric vehicles (EVs) is even more pronounced as saltwater flooding increases the risk of fires or spontaneous combustion. EVs contain lithium-ion batteries, also found in e-bikes and scooters, wheelchairs, golf carts and electric lawn mowers. If these batteries are soaked in saltwater, some may ignite once floodwaters subside and stay alight for extended periods. Although such fires are rare-- of the 48 lithium-ion battery fires caused by Hurricane Helene, 11 were caused by EVs, a small fraction of the more than 254,000 EVs registered in Florida¹ - the damage they cause to homes and garages could increase demand for traditional gasoline cars as replacements, weakening demand for EVs.² This would be a major setback for automakers, who have positioned themselves for an uptick in demand for EVs as traditional gasoline cars are phased out.³

Insurance premiums rise

Storm damage substantially increases home and automotive insurance premiums. Property owners have been grappling with rising insurance costs or a complete lack of coverage, putting pressure on businesses about rebuilding or whether they need to scale back operations. This leads to uncertainty over future corporate spending, as companies may consider relocating and others hesitating before setting up in hurricane-prone regions.⁴

Taxes shift up

In addition to higher insurance costs, Florida residents could face higher taxes as well. The federal government does cover some of the clean-up costs, but the bulk of repairing and restoring destroyed infrastructure, such as roads and ports, will fall on states and municipalities.⁵

Job market

Extreme weather can lead to temporary job losses and a rise in unemployment claims, denting the labour market. Before Milton, economic consultant Oxford Economics estimated the storm's trajectory encompassed areas representing about 2.8% of US GDP, suggesting a Category 5 hurricane could decrease the fourth quarter's annualised GDP growth rate by 0.14%,⁶ or close to \$40 billion.

Hurricane Helene is expected to reduce jobs by 40,000 to 50,000 in October's nonfarm payroll figures and Hurricane Milton will exacerbate these figures likely in the November jobs reports.⁷ This complicates interest rate policy for the Federal Reserve (Fed), who try to look past temporary setbacks and set policy on a forward-looking basis. However, given the Fed's increasing focus on the labour market, this may make assessing underlying trends more challenging. It is possible inflation may overshoot, given aforementioned impacts on car prices, insurance and building materials.

Recovery

Sectors focused on reconstruction and recovery often experience a boom following extreme weather events and this time will be no different. Construction, disaster relief and infrastructure repair industries will see an uptick, providing a much-needed boom to local economies. According to economic analysis firm Implan, the aftermath of a single hurricane can indirectly create around a quarter of a million jobs, provide over \$17 billion in wages and add more than \$30 billion to GDP over a number of quarters, if not years.⁸ The ripple effects are vast, with every dollar invested in hurricane-related repairs generating \$1.72 across various sectors, such as retail, housing, banking and oil-refining businesses.⁹

Hurricanes lead to a direct drop in visitor numbers, weighing on tourism-dependent sectors. As such, sectors such as tourism and hospitality, both vital to Florida's economy, will experience subdued demand.

Conclusion

It is clear these devastating storms will have lasting effects on the US for some time, although the actual impact to the overall GDP is relatively small. While employment figures in October and November will be impacted by the storm, it is possible December could see a boost from newly employed recovery efforts, implying only a modest net impact. As focus shifts from the devastation left in the wake of these natural disasters, investors will pay close attention to inflation trends and the upcoming presidential election.

[1] New York Times: <https://www.nytimes.com/2024/10/09/climate/electric-vehicles-fire-hurricanes.html>

[2] Gavekal Daily

[3] Gavekal Daily

[4] Forbes: <https://www.forbes.com/sites/jackkelly/2024/10/11/how-hurricanes-milton-and-helene-will-impact-us-jobs/>

[5] Gavekal Daily

[6] Forbes

[7] Oxford Economics

[8] Forbes, Implan

[9] Forbes

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