

Special Commentary — October 21, 2024

Hurricane Helene and Milton Challenge the Southeast Regional Economy

The Regional Economic Impact of Natural Disasters

Summary

Evaluating the Costs of Helene and Milton

Although Hurricane Helene and Hurricane Milton have now passed, the social, environmental, demographic and economic damages are still being tallied. The most acute economic impacts are likely to be felt in the near term, as the repercussions of the storms weigh heavily on the localities most effected. Over the longer run, rebuilding efforts and an influx of government aid should help bring about a recovery. That said, the hurricanes hit wide swaths of the region not accustomed to dealing with storms of such magnitude. The substantial public assistance already announced is an encouraging sign that the restoration process has already begun, however the potential out-migration of residents, businesses and investment capital casts a high degree of uncertainty on the timetable for recovery.

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Hurricanes Helene and Milton Batter the Southeast

Hurricane Helene breached Florida’s Gulf Coast late in the evening on Thursday, September 26 as a Category 4 hurricane. The storm was similar in size to Hurricane Katrina, stretching 400 miles from end to end. Traveling at 30mph and with sustained winds reaching 140mph, Helene was the strongest tropical cyclone to hit the Big Bend region since 1851. The storm system had formed just two days prior in the Caribbean Sea, giving Sunshine State residents little notice. After making landfall near Keaton Beach, FL, Helene brought near-record storm surge that reached as high as 15 feet in some Gulf Coast communities. Helene went on to travel 500 miles up through Georgia, the Carolinas and Tennessee, softening as it went but bringing heavy rainfall and flooding in its wake. In Florida, Helene was followed just two weeks later by Hurricane Milton, which battered the Gulf Coast as a Category 3 hurricane and produced more than 100 tornado warnings in a single day.

Hurricane Helene’s most devastating effects were felt in the Blue Ridge Mountain communities of western North Carolina and eastern Tennessee. The regions were unprepared for the historic combination of heavy rain, flooding and mudslides that would occur, especially after the soil was already saturated by record-setting rains just days prior. When all was said and done, Helene dumped as much as 30 inches of rain in parts of North Carolina over a three-day time span. French Broad River flowing near Asheville swelled to never-before-seen levels, leading roads, homes and businesses to be swept away by raging flood waters. Helene ultimately became one of the deadliest inland hurricanes on record. The death toll as of October 9 numbers 238 individuals across six states.

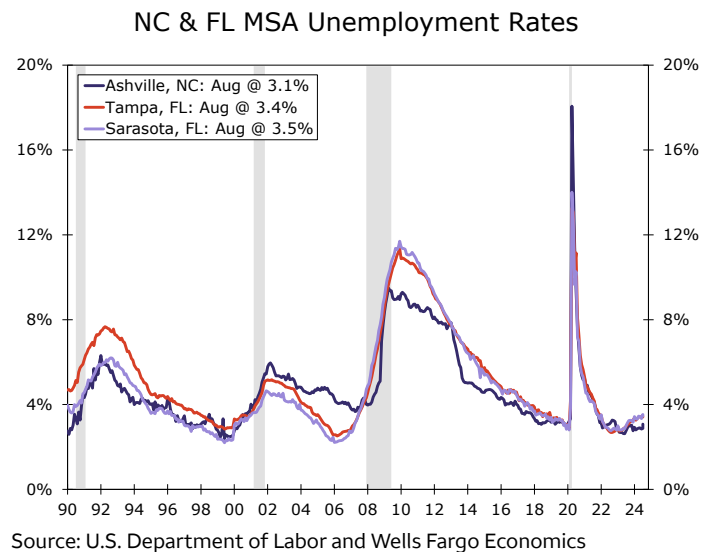
The social, environmental, demographic and economic damages are still being tallied and will likely take years to be fully determined. That said, several firms have released initial economic estimates. According to CoreLogic, Hurricane Helene likely resulted in between \$30.5 billion and \$47.5 billion in losses from property damage and business interruption. Up to \$17.5 billion of this range amounts to damage to insured properties; the remaining \$30 billion of damage represents uninsured losses. CoreLogic found that the bulk of wind damage was to residential properties in the Southeastern United States, however losses stretch all the way up to Pennsylvania and New York. CoreLogic’s initial estimates for Hurricane Milton suggest that total wind and flood loss could amount to between \$21 billion and \$34 billion across Central Florida.

Costliest Atlantic Hurricanes			
	Nominal damage (Billions USD)	Year	Storm classification at peak intensity
Katrina	\$125	2005	Category 5
Harvey	\$125	2017	Category 4
Ian	\$113	2022	Category 5
Maria	\$92	2017	Category 5
Irma	\$77	2017	Category 5
Ida	\$75	2021	Category 4
Sandy	\$69	2012	Category 3
Helene	\$30-\$48*	2024	Category 4
Ike	\$38	2008	Category 4
Andrew	\$27	1992	Category 5
Michael	\$25	2018	Category 5
Florence	\$24	2018	Category 4

*Current CoreLogic Estimate

Source: NOAA, CoreLogic and Wells Fargo Economics

The storms barreled through much of the Southeast, causing most major metropolitan areas to experience some degree of disruption. The Asheville, North Carolina and Tampa and Sarasota, Florida metro areas and their surrounding counties bore the brunt of the storms. Fortunately, these two metros are on strong economic footing. As shown in the above chart, unemployment rates in Asheville,



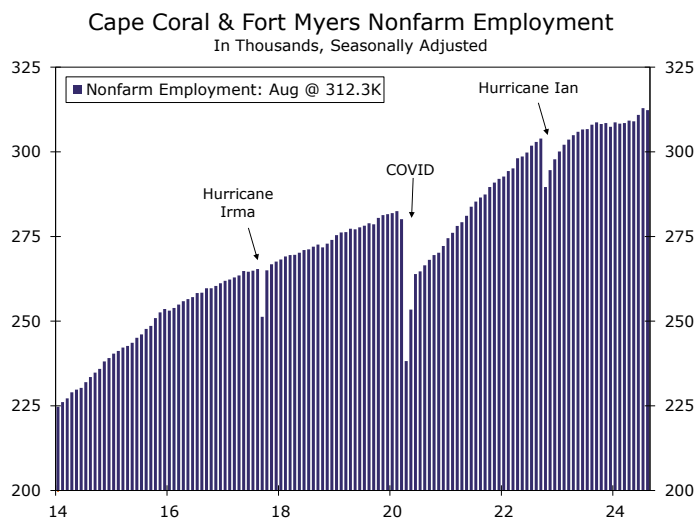
Tampa and Sarasota have drifted slightly higher over the course of the past few months but remain near historic lows.

So, what comes next for these regional economies? Historically, the economic costs of natural disasters depend on a great many of factors such as population and infrastructure density, insurance coverage, size of government aid and the severity and type of natural disaster. Simply put, quantifying economic impacts is challenging because no two natural disasters nor the regions they affect are the same.

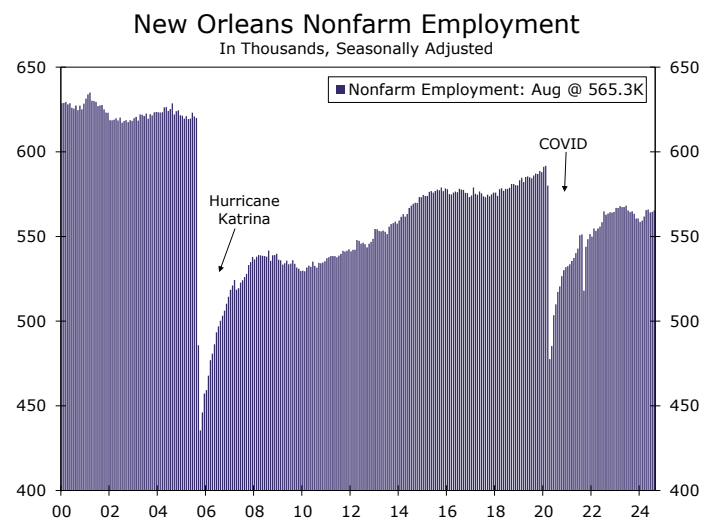
That said, some common patterns emerge when looking at past cases. In the near-term, natural disasters destroy property, infrastructure and wealth, but usually only derail economic activity temporarily. One recent example is Hurricane Ian, which ripped through the Gulf Coast of Florida in September 2022. For several days, many areas in the state endured intense winds, flooding and an extended period of power outages. Ian led to significant disruption in Florida's critical tourism and agriculture industries and caused significant damage to local infrastructure and residential and commercial real estate. Overall, the losses were estimated to be around \$113 billion, making it the costliest hurricane in Florida's history and the third-costliest in U.S. history behind only Katrina in 2005 and Harvey in 2017.

The total effects of Hurricane Ian still linger, but the local economies most impacted appear to be back up and running. For instance, the Cape Coral-Fort Myers labor market recovered relatively rapidly. In October 2022, nonfarm payroll employment in the metro area fell by 14,300 jobs, a sharp 4.7% monthly decline. Meanwhile, the unemployment rate shot up from 2.7% in September to 4.3% in October. In the months that followed, the unemployment rate receded and employment levels returned to their pre-hurricane peak by April 2023. The hurricane also influenced other major economic variables, such as housing production, personal income growth and gross metropolitan output, however the effects look to have been mostly transitory. Similar results were observed after Hurricane Irma swept through Florida in 2017.

There are several reasons why Florida's economy has been relatively resilient to shocks from natural disasters. Since hurricanes are not entirely unusual, the state's local infrastructure and real estate assets have been either retrofitted or constructed to withstand harsh weather conditions. A high percentage of households also carry flood insurance, which helps lessen the blow when properties are damaged. Although storms always present a challenge for Florida's agriculture and tourism industries, the state economy has significantly diversified over the past several decades and the overall industry structure is now less susceptible to disruption from weather events. What's more, the Florida economy has grown at strong clip in recent years, which reflects sturdy underlying economic and demographic fundamentals. Strong employment and population growth have equipped the state to better absorb disaster shocks while simultaneously helping to attract new investment capital in the aftermath of the storms.



Source: U.S. Department of Labor and Wells Fargo Economics

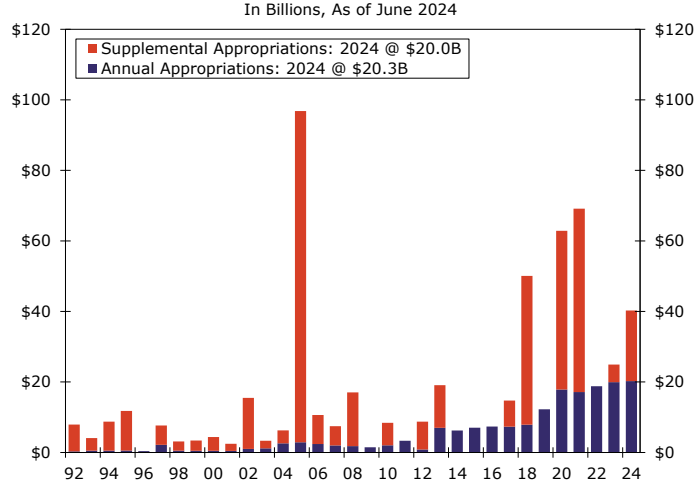


Source: U.S. Department of Labor and Wells Fargo Economics

Hurricane Katrina and the tepid economic rebound that followed provides a counterexample to Florida's relative resilience to hurricanes past. In 2005, Hurricane Katrina washed ashore and caused an estimated \$125 billion in damages, making it the costliest hurricane to have ever hit the United States. The economic fallout was immense. The storm destroyed an estimated 300,000 residential properties, interrupted the region's tourism, export and energy industries, and generated significant demographic loss as millions of residents were displaced from the area. An outpouring of government aid helped bring a partial rebound in the months after, but a full recovery never materialized. Currently, employment, population and real gross metro output in the New Orleans metro area are still below the levels registered before Katrina.

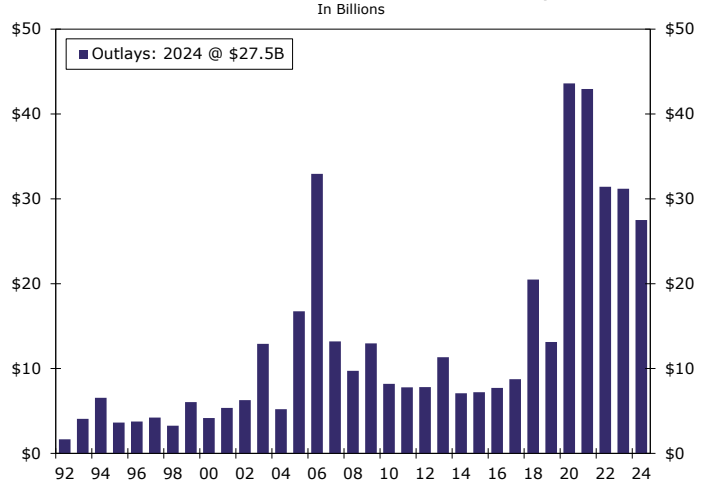
Hurricane Katrina also shined a light on the important role the federal government fills in recovery efforts following disasters. While multiple federal agencies, including the Small Business Administration, Department of Housing and Urban Development and Department of Agriculture deploy personnel and provide some level of financial assistance to households and businesses, the Federal Emergency Management Agency (FEMA) is usually the largest contributor in the wake of natural disasters. As shown in the chart below, FEMA provides aid through the Disaster Relief Fund (DRF). The DRF is funded by an annual appropriation from Congress, and then supplemented with additional funds as disasters arise. Roughly 75% of outlays are dispensed in the first three years after a disaster, with the remaining 25% spread over the course of a decade or more. Encouragingly, FEMA has announced \$1.8 billion in public assistance for the areas impacted by Helene and Milton. Federal funds to support the recovery efforts are not a cure-all, but they will help the economic recovery to begin.

FEMA Disaster Relief Fund Appropriations



Source: Congressional Budget Office, Congressional Research Service and Wells Fargo Economics

FEMA Disaster Relief Fund Outlays



Source: Congressional Budget Office, U.S. Department of the Treasury and Wells Fargo Economics

So, what does all this mean for the regional economies impacted by Hurricane Helene and Hurricane Milton? Given that the hurricanes were most acutely felt in two regions with vastly different economies, there is likely to be significant disparity in terms of recovery timelines. There are sure to be immediate effects on local employment, evidenced by a spike in initial jobless claims in North Carolina and Florida during the first weeks of October. Consumer spending, new construction and industrial production in the affected regions are also very likely to register short-term declines. As residents replace damaged vehicles and rebuild impaired properties, many of these economic measures will likely bounce back over the coming months.

The long-term outlook is more uncertain. Hurricane Milton primarily rocked the state of Florida, which has shown itself adept at responding to natural disasters in the past, making a near-term recovery appear more feasible. That is not to say there will be no long-term harm to the local economy, as the compounding effects of recent natural disasters do appear to be building. For one, insurance premiums have risen sharply throughout the state in recent years, in part reflecting the high cost of rebuilding in the wake of the recent hurricanes. Over time, high insurance costs could pressure affordability in Florida's real estate sector, diminish population flows and reduce business formation. That said, Florida's wide and diverse economic landscape comprised of households, businesses and

government officials who know how to prepare for and respond to disasters should help lessen the knock-on effects of the storm.

Meanwhile, the timeline for economic recoveries for the cities and towns in western North Carolina and eastern Tennessee are more uncertain. Generally speaking, the region's industry structure is less diverse and has a heavy reliance on agriculture, manufacturing, mining and tourism. Asheville, and many of the surrounding mountain towns, have blossomed over the past few decades as increasing numbers of visitors from around the world descend on the Appalachians to catch a glimpse of the fall foliage or consume the growing arts, architecture and brewery scene. The region's reliance on tourism, which appears to have dropped off significantly in recent weeks, could prolong the economic recovery. Furthermore, the region generally has higher poverty rates and lower insurance coverage, which means many households may struggle to absorb the economic shock from Helene. Along similar lines, many residents could be displaced, and there could also be an out-migration of higher-income residents who are able to relocate. Population outflows could spark a decline in home values, decrease household wealth and lead to an increase in poverty rates.

Beyond the economic effects, natural disasters clearly bring long-lasting societal, environmental and other non-economic harms not easily measured. In other words, an economic recovery does not necessarily mean the well-being of an economy has been restored. To end on an encouraging note, however, most regional economies do eventually recover from natural disasters. [Recent research](#) suggests the recoveries yield stronger economic growth over the long run as less-productive local assets are replaced by more-productive assets. In layman's terms, there could be a "build back better" effect where updated infrastructure and government aid ultimately leads to higher income and employment growth.

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