

Severe Weather and Its Impact on the Economy

The summer of 2016 may be remembered by many as one of severe weather: Wildfires, excessive heat, drought, floods. While extreme weather events are typically perceived as affecting a localized area -- California, in the case of recent wildfires, and southern Louisiana for its floods -- the larger impact of these incidents is often more far-reaching, affecting the broader economy and population.

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In Louisiana for instance, federal, state, and local officials are still in the process of tallying property damage totals and other flood-related statistics. Yet preliminary figures forecast recovery costs to the U.S government and taxpayers to be in the hundreds of millions of dollars -- possibly topping \$1 billion -- based on an estimated 60,000 homes that sustained damage.^{1,2} Those numbers continue to be adjusted upward depending on the source.²

Broader Implications

This latest expenditure adds to the \$360 billion in direct government costs due to extreme weather events paid by U.S. taxpayers over the past decade.³ While Americans collectively shoulder the burden of such expenses as part of the tradeoff of citizenship, there are other potential consequences that extreme weather events can have on the economy and your finances.

Let's talk heat. According to the National Oceanic and Atmospheric Administration, July 2016 made history for being not only the hottest July on record, but also the hottest month since global temperatures were first recorded in 1880.⁴

Heat waves can have a number of potentially detrimental effects on the economy. Hot weather has a tendency to skew short-term economic data like the monthly jobs report which, historically, has had an impact on a range of factors, from consumer sentiment to Federal Reserve fiscal policy.⁵ While employment statistics are already "seasonally-adjusted" to allow for normal weather differences across regional zones -- e.g., construction statistics are typically stronger during spring than in the winter months -- these standard adjustments do not account for the impact of extreme weather variances.⁵

Extreme heat (or cold) can also affect the nation's agriculture, resulting in low crop yields, lost growing seasons, and ultimately higher prices at the grocery store.

Pocketbook Issues

How else might extreme weather impact the economy and consumers? Consider these potential effects:

Energy costs -- If extreme summer heat, like extreme cold temperatures in the winter months, persists over time a likely consequence might be an increase in energy demand -- which could lead to higher energy bills.

Home maintenance/repair -- The threat of extreme weather may mean you opt to safeguard your home by purchasing weatherproof fixtures and ensuring that you have the needed equipment to deal with severe summer or winter weather.

Insurance costs -- Homeowners living in areas prone to hurricanes, floods, earthquakes, and other types of extreme weather may see an increase in premiums as insurers move to shift the cost of the added risk to customers. Conversely, some insurers may opt to simply exit the market in high-risk areas of the country.

As a precaution, make a point to review your property insurance coverage(s) with your financial advisor on an annual basis, be aware of the potential risks associated with your geographic area, and maintain the appropriate policies needed for protection. Keep in mind that many homeowners' insurance policies do not provide coverage for a range of extreme weather events including hurricanes and wind damage, earthquakes, and floods, but you can generally buy supplemental policies to cover a specific type of "natural disaster."

In the case flood coverage, you may want to consider purchasing a separate flood insurance policy from the National Flood Insurance Program (NFIP) offered through the Federal Emergency Management Association (FEMA). NFIP coverage is available to homeowners, renters, and businesses in communities that participate in the NFIP.

The cost of purchasing flood insurance varies according to how much coverage is purchased, what is covered, as well as your property's location and flood risk. Flood insurance cannot be purchased directly from the NFIP. Talk to your insurance agent about assessing your need for flood insurance and/or purchasing a policy or contact the NFIP at (888) 379-9531 to request an agent referral.

¹*The Wall Street Journal*, "[Government Financial Help for Louisiana Flood Victims Limited.](#)" July 29, 2016.

²npr.org, "[Louisiana Takes Stock Of The Damage After Devastating Flooding.](#)" August 21, 2016.

³*The Wall Street Journal*, "[Enlist the Market in the Climate-Change Fight,](#)" August 18, 2016.

⁴National Centers for Environmental Information, National Oceanic and Atmospheric Administration, "[Global Analysis, July 2016.](#)"

⁵World Economic Forum, "[What impact does extreme weather have on the global economy?'](#)" January 12, 2016.