News Release

THE FEDERAL RESERVE BANK of ST. LOUIS

WHAT EFFECT DOES A NATURAL DISASTER HAVE ON THE ECONOMY?

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ST. LOUIS -- Whether it's a tornado in Topeka, a blizzard in Buffalo or a flood in Des Moines, the impact of a natural disaster is considerable and often leaves an economic imprint that lingers for years.

In "The Economics of Natural Disasters," the lead article in the April issue of The Regional Economist, the St. Louis Fed's quarterly review of business and economic issues affecting the Eighth Federal Reserve District, Economist Kevin L. Kliesen examines how natural disasters affect the economy and why calculating damage estimates is a guessing game.

According to Kliesen, one characteristic common to all natural disasters is that early damage estimates tend to be significantly overstated.

(more)

"This happens for several reasons," says Kliesen. "For example, buildings, infrastructure and crops that appeared totally destroyed may in fact be only partially damaged. Or in some cases, a state may overestimate its losses in order to maximize disaster assistance dollars."

Despite immediate devastation, natural disasters tend to eventually boost the local economy--they spur increased economic activity through higher retail sales and additional employment.

Two additional articles complete the publication: "Home Sweet Home in the Eighth District," by Economist Michelle A. Clark, who discusses the boom in Eighth District homebuilding and "Are Minimum Wages Intrusive?" by Economist Adam M. Zaretsky, who examines both sides of the controversial minimum wage issue.

The Federal Reserve Bank of St. Louis has branches in Little Rock, Louisville and Memphis. It serves the Eighth Federal Reserve District, which includes all of Arkansas, eastern Missouri, southern Indiana and Illinois, western Kentucky and Tennessee, and northern Mississippi.

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