Typhoon Worse for Philippines Economy Than Sandy for U.S.

By Noah Buhayar - Nov 11, 2013

Destruction from Typhoon Haiyan, which flattened buildings and unleashed storm surges that may have killed 10,000 people, could be several times worse for the Philippines economy than superstorm Sandy was for the U.S.

Losses will be $12 billion to $15 billion, or about 5 percent of economic output in the island nation, according to an estimate by Charles Watson, director of research and development at Kinetic Analysis Corp., a disaster-modeling firm. Sandy, which struck the U.S. last year and flooded parts of New York and New Jersey, caused damage that was less than 1 percent of gross domestic product in the world's largest economy, he said.

“A $12 billion storm is not really that bad here in the U.S.,” Watson wrote in an e-mail yesterday. “For the Philippine Islands, it is catastrophic.”

Scaling losses based on output highlights the disparity of disaster costs in developing nations versus more-mature economies. While losses from earthquakes, tsunamis and hurricanes in places like Japan and the U.S. can be larger in absolute terms, those countries are more capable of absorbing the damage and carry more insurance to help rebuild.

Only about 10 percent to 15 percent of the total losses in the Philippines may be insured, Watson said. That compares with about 50 percent for Sandy, which caused around $50 billion in economic damage, according to data from Munich Re, the world's largest reinsurer.

Natural Disasters

Other natural disasters show the same pattern. The 2010 earthquake in Chile, which caused as much as $18 billion in damage, represented about 7.5 percent of that country's output, Watson said. In contrast, the earthquake and tsunami in Japan in 2011 resulted in $320 billion in losses, or about 6 percent of the country's GDP, he said.

Economies can often get a lift after disasters. Following Sandy, contractors hired workers to meet demand. Individuals, businesses and governments also spent to help rebuild and fortify buildings and infrastructure.

That may be muted in the Philippines because there's less insurance to spur activity, said Robert Muir-Wood, chief research officer for catastrophe modeler Risk Management Solutions Inc.
“The economic activity of reconstruction itself is much lower than it would be in a rich country where everybody’s using insurance and claims assessors and getting quotes from builders,” Muir-Wood said. “A lot of people will end up mending their own houses.”

**Philippines’ Economy**

The Philippines is one of the countries most at risk of natural disasters, according to Maplecroft, a research company based in Bath, England. The Asian Development Bank estimates that losses from typhoons and earthquakes in the Philippines average $1.6 billion annually, the highest in Southeast Asia.

President Benigno Aquino has overseen an economic revival, allowing increased government spending on roads, airports and flood prevention to mitigate the effect of catastrophes. Growth has exceeded 7 percent for four straight quarters and this year the country won investment-grade scores from Moody’s Investors Service, Fitch Ratings and Standard & Poor’s.

**Related News:**

- Philippines Declares Calamity as Fresh Storm Approaches
- What Philippines Can Learn From 2004 Tsunami
- Rescuers Race to Philippines as Typhoon Death Toll Climbs
- Typhoon Deaths Show Aquino’s Task to Halt Philippine Tragedy
- Philippines Plight Takes Center Stage at UN Climate Talks

Haiyan slammed into central Philippines on Nov. 8, knocking down buildings and trees, flattening crops and destroying an airport. The storm affected almost 9.7 million people, authorities said, and 22 countries have pledged assistance. Soldiers were dispatched to prevent looting as survivors scoured for food.

**Markets React**

The Philippine peso weakened to its lowest level yesterday against the U.S. dollar since the middle of September. The nation’s benchmark equity index dropped 1.4 percent.

The United Nations said it is stepping up relief operations, with much of the destruction concentrated in and around Tacloban city, the capital of Leyte province. The difficulty in reaching the hardest-hit areas means the number of casualties has yet to be confirmed, said the Red Cross in Geneva, which cited Philippine authorities as saying the death toll may reach 10,000.

The storm should be viewed more as a humanitarian crisis than an expensive disaster for the insurance and reinsurance industry, RMS’s Muir-Wood said.

“This will not be a very significant event” for reinsurers, said Muir-Wood. Losses may arise from auto claims and large, multinational businesses that have property in the area, he said.

Munich Re rose 0.3 percent to 154.40 euros in Frankfurt yesterday. Swiss Re Ltd., the second-
largest reinsurer, advanced 1.2 percent in Zurich. Class A shares of Warren Buffett’s Berkshire Hathaway Inc., which sells catastrophe coverage, climbed 0.2 percent in New York.

To contact the reporter on this story: Noah Buhayar in New York at nbuhayar@bloomberg.net

To contact the editor responsible for this story: Dan Kraut at dkraut2@bloomberg.net