

U.S.

With Its Economic Heft, Houston Is Equipped to Recover From Harvey

Unlike New Orleans after Katrina, the city is better-positioned to absorb the blow from what could be the most expensive U.S. storm ever



The greater Houston area economy is better equipped to absorb the blow from Harvey because of its size, diversity and prominence as the nation's energy hub PHOTO: DAVID J. PHILLIP/ASSOCIATED PRESS

By Christopher M. Matthews

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Houston's economy will suffer a significant and perhaps unprecedented blow from Tropical Storm Harvey. But economists project that unlike New Orleans following Hurricane Katrina, Houston's resurrection is nearly certain.

By some estimates, Harvey could be the most expensive U.S. storm ever. Kevin M. Simmons, a disaster economist at Austin College, estimated that \$145 billion in property is at risk of being damaged.

Adam Kamins, an economist for Moody's Analytics, estimates the price tag could be as much as \$75 billion for southeast Texas. He predicts that the city could lose as much as \$10 billion in economic output, and that businesses might suffer some \$10 billion to \$15 billion in property damage from flooding. Economic output could be flat for two months following the storm but would likely grow thereafter, he said.

Hurricane Katrina is estimated to have cost about \$100 billion in property damage in 2005, the most costly storm in U.S. history to date.

But unlike New Orleans, the greater Houston area economy is better equipped to absorb the blow because of its size, diversity and prominence as the nation's energy hub.

Houston is the country's fourth-largest city by population and economic output, with 2.3 million people and a gross domestic product of more than \$503 billion in 2015, according to the most recent data from the Department of Commerce, making it roughly the size of Sweden's economy.

At the time of Katrina, New Orleans had a population of roughly 450,000 and an economy largely dependent on tourism. Following the storm, tens of thousands fled the city and never returned. Its population today is less than 400,000.

"New Orleans was hurt because people didn't come back," said James Richardson, an economics professor at Louisiana State University. "We're still not back to the pre-Katrina population."

Mr. Richardson studied Katrina's effect on New Orleans and found it lost 190,000 jobs and employment fell by more than 30% from August 2005 to December 2005. "I would be surprised if there's a comparable net loss in Houston," he said.

Mr. Richardson said part of Houston's resilience lies in its diversified economy.

While the city has long been tied to the boom-bust cycle of the oil industry, it has diversified in recent years. Some 84% of Houston's economy was dependent on the oil-and-gas industry during the 1980s, according to data from the Dallas Federal Reserve. But that had dropped to about 44% by 2016.

Houston boasts one of the largest medical centers in the world. Its health-care and education industries were the city's largest employers as of 2014, according to a 2017 study by the Greater Houston Partnership, the region's chamber of commerce.

Houston and the surrounding region are also in the midst of a petrochemical boom, with more than \$50 billion of capital investment projected to create thousands of jobs.

Mr. Kamins of Moody's predicts the real "economic tragedy" will be for homeowners. He predicts that most of the property damage—\$30 billion to \$40 billion in damage to homes and vehicles—will be residential and is unlikely to be covered by insurance.

That could prevent a full-scale reconstruction effort and even potentially slow the region's rapid population growth, he said, but it wouldn't spark a Katrina-like exodus.

“This could be a speed bump, but this is not going to derail the Houston economy,” Mr. Kamins said.

The storm had disrupted about 20% of U.S. refinery capacity located on the Texas Gulf Coast by Tuesday, and that figure is climbing. Employees in all industries could be prevented from reaching their offices for days to come as roads remain impassable.

Trade in the Houston Ship Channel, the second busiest in the country by tonnage, has also ground to a halt and could need weeks before traffic resumes normal levels, according to analysts.

Regina Mayor, Houston-based head of energy at KPMG, said any damage at refineries had been relatively contained so far. While companies are losing millions of dollars a day while their facilities are idled, “they’ve been through this before and planned accordingly,” she said.



A man looks for important papers and heirlooms inside his grandfather's house in the Bear Creek neighborhood of west Houston on Tuesday. PHOTO: ERICH SCHLEGEL/GETTY IMAGES

Longer term, Ms. Mayor said, oil-and-gas companies may need to think about where and how they build offices. Houston's energy corridor, where many of the world's largest oil-and-gas companies have offices, sits in between two decades-old reservoirs built to contain floodwaters. Those reservoirs are expected to flood for the first-time ever after water levels reached historic highs, according to the Army Corps of Engineers.

Richard Fisher, the former president of the Federal Reserve Bank of Dallas, said that construction would provide a short-term boost to the economy, but that there could be constraints on the available labor force for building projects if people leave and don't return and President Donald Trump pursues tighter immigration policies.

“All these business will have to be reconstructed,” Mr. Fisher said. “That’s an enormous opportunity, but you can’t rebuild Houston without Mexican labor.”

Mr. Fisher also said the dozens of Fortune 500 companies in Houston are unlikely to relocate but that the city's small-business community could face challenges.

Nearly 40% of small businesses never reopen their doors following a flood disaster, in part because many are uninsured, according to the Federal Emergency Management Agency.

Merin Guthrie, founder of Kit, a Houston-based women's clothing startup, said Harvey had all but halted her business for now. Ms. Guthrie's company designs, produces and ships all of its clothing from Houston, so the storm has put its entire supply chain at risk.

Ms. Guthrie, a native Californian who has lived in Houston for five years and more than eight months pregnant, has spent the past several days hunkered down at her Houston home checking in on her six employees, updating customers around the country, and worrying about whether zippers from China will get in through the Houston Ship Channel.

She has been unable to access her office, in central Houston, to assess any damage and consider insurance claims. Ms. Guthrie said she has general-liability insurance but not business-interruption coverage.

Still, Ms. Guthrie is cautiously optimistic.

"I kind of see this as another problem to be solved," Ms. Guthrie said. "Did I want to solve this as I'm heading into our busy, holiday season and I'm 8 ½ months pregnant, not really."

Corrections & Amplifications

Nearly 40% of small businesses never reopen their doors following a flood disaster, in part because many are uninsured. An earlier version of this article incorrectly stated those small businesses were insured.

Write to Christopher M. Matthews at christopher.matthews@wsj.com

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