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Rebuilding expected to spur economy

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For individuals suffering the loss of their homes, it may be hard to hear that there is a positive side to the wildfires that ravaged San Diego County last week.

But if history is any guide, the wildfires actually could provide a slight burst of growth to the local economy, which has been sluggish for more than a year because of the decline in the real estate market.

“It's going to be painful over the short-term,” said Alan Gin, an economist at the University of San Diego. “But in the long run, we could see some stimulus from the rebuilding effort.”

Over the next several months – if the 2003 Cedar and Paradise wildfires, 1994 Northridge earthquake, 1991 Oakland Hills fire and other disasters are any example – there will be a temporary decline in economic activity as families and businesses deal with the devastation.

In the short term, businesses with offices or employees in the burn areas will be disrupted. Many workers, especially in small businesses, could miss a paycheck or two. Some will lose their jobs. People whose homes and businesses were burned will feel the pain in their wallets. Productivity will suffer as workers deal with rebuilding their homes and lives.

“For a short time, some people will not be able to return to work,” said Christopher Thornberg, an economist at Beacon Economics in Los Angeles. “Some companies will not be able to open.”

Economists add that economic slowdowns caused by natural disasters don't last very long and typically are followed by an economic upswing.

“In general, business that gets postponed in the first weeks after a disaster is only delayed. It's not canceled,” Thornberg said. “Everything that's not done today gets done tomorrow or in the

next several weeks. Over the long run, that's just a small blip in the economy.”

By early next year, as money from insurance companies and government agencies pours into the region, there likely will be new work for hundreds of construction workers who have been laid off during the recent real estate slump. Home improvement and department stores will be doing more business as the fire victims stock their rebuilt homes.

“From an economic standpoint, the negative impact from disasters usually isn't long-lasting,” said Kelly Cunningham, economist with the San Diego Institute for Policy Research. “Things look negative right now, but there will be a dip and then a rebound. Rebuilding spurs the economy.”

Data on employment, retail sales and the region's gross domestic product after the Cedar and Paradise fires show that while the economy initially slowed for several months, it quickly recovered with a construction-related boom.

In many ways, San Diego's economy when the wildfires struck four years ago was similar to the economy today. In October 2003, the economy had been relatively stagnant for more than a year. Unlike today, the housing market was still vibrant, with home prices advancing at a double-digit clip over the previous year. But on the eve of the fires, unemployment was running at 5.1 percent, compared with 4.8 percent last month.

When the Cedar and Paradise fires hit, claiming more than 2,600 homes, there was a noticeable disruption to the economy.

More than 20,000 people filed new claims for unemployment in October 2003, a 3,000-person jump from the previous month.

Annualized sales growth declined from 7.1 percent in the third quarter of 2003 to 6.2 percent in the fourth quarter, as fire victims cut back spending on nonessential items.

Home sales dipped 9 percent in both October and November.

The growth rate of the county's gross domestic product, not adjusted for inflation, dropped from 6.9 percent in 2002 to 5.6 percent in 2003, according to the U.S. Bureau of Economic Analysis.

Despite the disruptions, new money started to flow into the county. Insurers began paying for homes and businesses to be rebuilt. Federal and state agencies such as the Small Business Administration also pumped in money for reconstruction.

If 2003 is an indication, the influx of new money will not have a noticeable impact on the

economy until early next year. After the Cedar and Paradise fires, it took four or five months before reconstruction in the burned areas began in earnest.

“When you've lost everything, it sometimes takes time to make up your mind about how to rebuild,” said Candysse Miller, spokeswoman for the Insurance Information Network of California. “And even though there was an effort to streamline the permit approval process, rebuilding doesn't happen overnight. There are technical items involved in deciding on the house plan, having it approved, getting bids for contractors and making sure they are available.”

Some homeowners and insurance analysts add that one reason the reconstruction effort took so long in getting off the ground is that the insurers dragged their heels on making payouts. By mid-April 2004, the insurers had passed out only \$752 million of the \$1 billion or so they ultimately paid out on claims from the fires.

“Some insurance companies have a strategy of slow pay,” said Andy Barile, an insurance industry consultant in Rancho Santa Fe. “The insurance policies may say that they will make their payments 'as soon as practical,' but what does that really mean? Sometimes the policyholder has to pick on their agent more and get them more involved in getting the insurers to move faster.”

As the insurers paid out their claims, local construction firms added workers to handle the reconstruction. From February to October 2004, construction employment in San Diego County jumped 9 percent, from 83,400 to 90,700 workers.

Not all of that growth came from the reconstruction effort. At the time, the San Diego real estate market was booming. The rebuilding of fire-stricken areas such as Scripps Ranch and Harbison Canyon also increased the demand for construction workers.

In addition, the homeowners used their insurance checks to refurnish their homes. Taxable sales during the first half of 2004 were more than 10 percent higher than the same period of 2003.

“Part of that was people buying refrigerators, furniture and decorations for their homes, things along those lines,” Gin said. “But I'd imagine that there was also pent-up demand from the fourth quarter. People were probably not spending as much after the fires, maybe not going as much to restaurants, for instance. And then they splurged in the next couple quarters.”

Economists say the fire could even have some minor, temporary benefits for the troubled housing market. For one thing, the availability of housing has been reduced. In addition, there will be increased demand for temporary housing, especially home rentals, as houses are rebuilt.

“The fire probably will have some minor mitigating effects on housing prices,” Thornberg said.

“But in the general context of falling prices and rising foreclosures, it's probably not going to help in the long run.”


Gary London, president of London Realty Group Advisors in San Diego, said the most positive impact of the fires may be that it provides the burn areas with a chance to rebuild more wisely.

“The upside is a modernization of homes, commercial properties and infrastructure,” London said. “This is perhaps an opportunity for some better community planning and tighter communities.”

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