

Don't exaggerate economic impact of the freeze...much of the lost GDP will be made up in the coming weeks – but some cash strapped businesses might be pushed over the edge



making business sense

TV pictures of stranded cars, warnings from gas companies that supplies might be interrupted, schools shut, children making snowmen and throwing snowballs – one might expect a major economic impact.

But all the past research shows that the impact of extreme weather on GDP is surprisingly small. cebr has researched various extreme weather episodes both in the UK and elsewhere in Europe in a paper presented to the Weather Risk Management Association in November 2004. This paper pointed out that the real cost of bad weather was almost always exaggerated. Much of the productivity lost is made up fairly soon after. Meanwhile there are offsets – consumers spend more on heating and on warm clothes and any damage from the bad weather from accidents, or structural damage leads to increased spending on repairs. Although the insurance companies will eventually have to raise premia to pay for their extra spending, in the short run the effect shows up as reduced corporate savings by the insurance sector. There will also be increased overtime worked by various rescue and recovery services which adds to economic activity.

Even the most extreme weather in the UK in the past 200 years - in February 1963 when it was so cold that as a small child I was able to walk across the frozen Thames at Old Windsor – had a non noticeable affect on GDP for the quarter. Our study concluded *'The extremely cold winter in the UK of 1962/63 reduced manufacturing output in February by 7% and in the Q1 1963 by 2.5%. Construction work in the quarter was reduced by 16%. But there was no net negative impact on GDP because of higher spending on heating'*.

There will be a short term economic impact from the loss of productivity from those who might otherwise be working who are unable (or unwilling) to get to work, or who get to work and are less effective than they might otherwise be. GDP per working day in the UK is about £5 billion, so if 20% of the population have zero productivity for the day, there is a loss of £1 billion.

The recession will also have an impact on how the weather effects feed through. Almost certainly this means that the effects on productivity will be mitigated. With very few businesses working at full capacity, it will be relatively easy for the lost productivity to be made up later in the week or in the month depending on how long the bad weather lasts.

But the recession also has a different effect – on business cashflow. The lost productivity is largely a cost to business. If, in addition, it leads to delayed payments. The combined hit on profits and cashflow could send many businesses who might be close to the brink into premature bankruptcy. In addition there is a sectoral and regional impact: many of the businesses that are close to failing are in the retail and construction sectors, and in Scotland and the North of England, which have been most affected by the snow and transport disruption. There is a risk that up to 2,000 additional businesses might fail prematurely in the first quarter of 2010.

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