



Economy to snuffle, not suffer from snowstorm

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By Lucia Mutikani - Analysis

WASHINGTON (Reuters) - Severe snowstorms that battered the U.S. Northeast and shut the federal government and many businesses for several days will give the U.S. economy some chills but won't permanently harm its slow recovery.

Two blizzards in a week and record snowfalls brought the region to a standstill, creating a multimillion-dollar mess for cash-strapped cities and states. But the setback for the broader economy will be limited and temporary, analysts said.

"It will be a slight setback in terms of production for the first quarter ... at the most it will be a fraction of a percent," said **Bernard Baumohl**, chief global economist at The Economic Outlook Group in Princeton New Jersey.

"This has to be viewed as a temporary situation and in no way does it mean that the recovery is in jeopardy."

The U.S. economy, recovering from its worst slump since the Great Depression, grew at an annual rate of 5.7 percent in the fourth quarter, the fastest pace in six years.

According to a Reuters survey, growth in the first quarter is expected to slow to a more moderate 2.7 percent rate as some stimulus from the government and inventory cycle fade.

The government was closed for a fourth straight day on Thursday, costing an estimated \$100 million in lost productivity each day. Airlines, already facing financial trouble, were also hit after flights were grounded.

Drawing from past experience, analysts said recent snowstorms that hit Washington, Baltimore, Philadelphia and New York could have an adverse effect on payrolls, housing starts, and retail sales data for February.

The storms coincided with the survey week for the government's closely watched employment report for February and economists at Deutsche Bank estimated the blizzards could have kept about 90,000 people away from work.

The U.S. Labor Department conducts its monthly payrolls survey during the pay period including the 12th day of the month.

"When there have been major storms in the past, we have seen weaker-than-expected payrolls numbers in the order of about 90,000," said Carl Riccadonna, a senior U.S. economist with the bank in New York.

"Given the scope of the back-to-back storms, this is leading us to believe that we will see an even greater average impact on nonfarm payrolls. Initially we were looking for something in the order of a 125,000 (gain but) now we are leaning to something in the order of unchanged."

WEATHER TO DISTORT DATA

U.S. employers cut 20,000 jobs in January, a sharp slowdown from the 150,000 layoffs in December when bad weather was also seen as a factor behind the weak jobs number. Analysts were generally expecting payroll growth in February, in part because the government is hiring people to conduct the 2010 Census.

Initial jobless claims data due out next week are also expected to be distorted by the weather.

The last major snowstorms in the region were in 1993 and 1996. Both triggered significant falls in payrolls and retail sales in the same months they occurred, but the losses were recouped in the following months, according to analysts.

"The two blizzards will perceptibly weigh on major economic data releases for the month of February," said Harm Bandholz, an economist at UniCredit Research in New York.

"(However) it has to be kept in mind that the likely declines in retail sales, nonfarm payrolls and construction activity understate the true economic situation. Barring another series of blizzards in March, the series will most likely show a rebound in the upcoming month."

Some 10 to 20 inches of snow fell this week across a large patch of the East Coast. Philadelphia, Baltimore and Washington have received more snow this winter than any time since record-keeping began.

Overall retail sales were also expected to see a decline, though analysts said losses will be tempered by anticipated brisk gift-shopping for Valentine's Day on February 14.

"February is a very low revenue month so when you have these kind of disruptions like last week and this week it does have an oversized impact on the month," said Eric Beder a Retail analyst at Brean Murray, Carret & Co. in New York.

"I don't think it will have an overall negative impact on sales for the first quarter. This was a bad storm, it's not going to kill the quarter or spring selling season."

States and local governments that must handle the clean-up are looking at a hit to their finances. Three big snowstorms since December have strained local budgets.

District of Columbia Mayor Adrian Fenty wants federal financial aid. New York Mayor Michael Bloomberg said the cost to taxpayers was \$1 million for each inch that fell.

Maryland and Virginia are expected within weeks to ask for federal help with costs for dealing with the storms. Both states sought federal assistance for a smaller storm in December but there have been no pledges of aid yet.

(Additional reporting by Jeremy Pelofsky and David Morgan)