



The Christian Science Monitor - CSMonitor.com

## New Zealand earthquake: Economy takes a hit, too

New Zealand earthquake losses could reach \$12 billion or more, because of the huge impact from indirect losses.



Rescue workers are lowered by crane onto the top of the Christchurch Cathedral in Christchurch, New Zealand, Feb. 25, 2011 after the city was hit by a 6.3 earthquake Feb 22. As residents pick up the pieces, the stark economic toll of the New Zealand earthquake is coming into focus.

(Rob Griffith/AP)

By Laurent Belsie, Staff writer

posted February 25, 2011 at 4:14 pm EST

As New Zealand begins to pick up the pieces from Tuesday's huge earthquake in Christchurch, it's beginning to tote up the magnitude of the economic toll. There are direct losses:

The government's natural catastrophe fund expects to pay out \$1.5 billion (NZ) -- \$1.1 billion (US) -- to residential property owners.

Private insurers are expected to pay out twice that amount in residential claims beyond the government's maximum payouts.

Commercial losses and business interruption claims will add to private insurers' payouts, estimated to total somewhere between \$3.7 billion (US) and \$8.4 billion.

Indirect economic losses, however, could double or even triple those totals, especially in the next few months. That's because earthquakes tend to have a bigger impact on infrastructure, such as roads and water, than other large-scale natural disasters, such as hurricanes. As of Friday morning local time, for example, 32 streets and 13 bridges were closed to traffic, according to Christchurch City Council.

That's a blow to businesses trying to move products in and out of the area.

"They have to reroute to find a second-best transportation network," says JiYoung Park, a professor of urban and regional planning at the University of Buffalo's school of architecture and planning. "The transportation costs will be increased."

Typically, manufacturing centers take a greater economic hit from earthquakes than service-related cities do, he adds. That would bode ill for Christchurch, where manufacturing is the city's biggest employer. But media reports suggest that some of the area's biggest manufacturers – Tait Radio Communications, cerealmaker Sanitarium, and Steel & Tube Holdings – may have escaped extensive damage.

Still, the indirect losses loom large, including the loss of productivity from area workers. That includes, of course, the 113 fatalities confirmed so far. But it also involves the loss of man-hours among the 350,000 residents of Christchurch, New Zealand's second-largest city.

The effect works both ways: Businesses lose worker time and workers lose pay, Dr. Park says. "So those laborers will lose their money directly.... [And the] economy will be impacted again by the losses of their purchases." These indirect effects can equal the direct losses of buildings and other capital from an earthquake, he adds.

Christchurch's earthquake last September was already New Zealand's costliest natural disaster in three decades, with no loss of life but overall losses estimated at \$6.5 billion. Tuesday's earthquake could have twice that economic impact, by some estimates.

If there is a silver lining to the current catastrophe, it's that such losses are concentrated in the short term. As businesses get back on their feet, there's typically a surge of production as they try to make up for lost time and lost business. Similarly, the insurance money paid for claims will create a burst of economic activity, Park says. "One year later, most economies seem to have recovered."

© The Christian Science Monitor. All Rights Reserved. **Terms** under which this service is provided to you. **Privacy Policy**.