



## Weather: It Matters a Little or a Lot

### Look for Clues to Economy in the Weather, Not the Stars

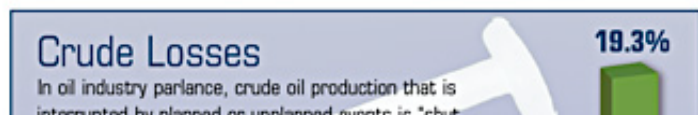
Weather is common fare for small talk, but it's difficult to think of many topics that can have a bigger effect on economic activity. It's not a coincidence that the National Oceanic and Atmospheric Administration, the federal agency that studies and forecasts weather, is run by the U.S. Department of Commerce.

Take, for example, the most publicized weather event in recent memory: Hurricane Katrina. Damage caused by this single storm in August 2005 cost federal taxpayers nearly \$130 billion during the first two years of recovery efforts.<sup>1</sup> Insured losses topped \$42 billion.<sup>2</sup> When uninsured losses

are added to the mix, it's not unreasonable to think that Hurricane Katrina alone caused more than a quarter of a trillion dollars in damages.

Although such large storms are fairly rare, both good and bad weather play dominant roles in our economy. Here are some examples.

- Weather events and trends are priced into such basics as food, energy, water, transportation, insurance, real estate, and labor. In many cases, variations due to weather are anticipated and priced in ahead of time.
- Just about any measurement of economic activity, from unemployment to housing sales, is adjusted for seasonal variations.
- Retailers and manufacturers use “weather intelligence” to determine inventory and production levels in anticipation of weather-driven consumer behavior. Store traffic, consumer demand, disposable income, and product availability are all affected by weather.
- Although energy is usually thought of as our economy's great common denominator, even energy is at the mercy of the weather. In 2004 and 2005, three major storms roared through the Gulf of Mexico, damaging offshore platforms, onshore refineries, and underwater pipelines; crimping supplies and pushing up oil and gasoline prices for months.<sup>3</sup>
- When normal weather events don't occur (e.g., lack of expected rainfall), the effects can include produce shortages and higher prices. Seventy percent of the world's fresh water is used for agriculture, which leaves few alternatives for boosting supplies during shortages.<sup>4</sup> When water becomes scarce in a certain area, the effects can go beyond a particular crop and ripple through the economy and the financial markets,



even to areas where water is  
not scarce.

Understanding the role that weather plays in economic activity may help lead to better  
decisions about your portfolio.

- 1) *The Wall Street Journal*, August 30, 2007
- 2) Insurance Company Institute, 2007
- 3) *The Wall Street Journal*, August 18, 2007
- 4) *Investor's Business Daily*, September 13, 2007

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