

Economic Watch

United States

Texas Wildfires Remain a Threat Net losses from recent fires may reach \$250 million

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Economic Analysis

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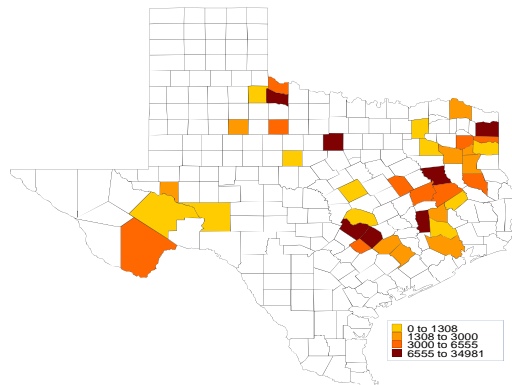
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As a consequence of the state's worst one-year drought on record and high heat, raging wildfires have continued to propagate throughout the Texas landscape. This year marks the worst wildfire season in the state's history. A burn ban is in effect for essentially the entire state, and since November 2010, approximately 24,000 wildfires have consumed around 3.8 million acres, destroyed over 7,600 structures and claimed four lives. Since the end of August, wildfires in 39 Texas counties have destroyed around 170,000 acres and caused severe devastation in Bastrop County. While the number of active fires has dropped to a single digit, the threat remains severe. We estimate that the recent fires since August are responsible for an additional \$400-600 million of losses and will push the final fire-related loss tally above \$1 billion in 2011.

In 2007, the economic census revealed that these 39 counties generate more than \$1.8 billion in sales of farm products which was 9% of the state's total. These counties are also home to approximately 13% of the state's cattle population. In addition to crop and livestock sales, the piney woods of East Texas produce over 480 million cubic feet of timber each year with a delivery value of nearly \$500 million. In fact, 19 of the 39 fire-affected counties are responsible for 33% of the state's timber production.

Our initial estimates of direct material losses include residential property, farmland assets and the lost production of agriculture and timber. The largest losses arise from residential property, due principally to the massive fire in Bastrop that destroyed more than 1500 homes. The majority of these losses, however, will be offset by insurance claims that will support reconstruction efforts and stimulate local economic activity. Moreover, the affected counties have been declared federal disaster areas, and eligible residents may receive emergency aid for up to 8 months. Adding expected compensation to the total loss estimates, net losses could range from \$180 to over \$250 million. While our initial estimates consider direct losses, indirect losses stemming from positive and negative external effects from re-building efforts, pollution, deforestation and cropland destruction will comprise the total economic impact.

Chart 1
**Texas, Recent Wildfires
By County and Acreage of Fires**



Source: Texas Forest Service and BBVA Research

Table 1
**Projected Losses of Recent Wildfires
\$ Millions**

	Median	(+/-)
Residential assets	\$315	\$15
Timber	\$99	\$30
Cattle	\$4	\$3
Business assets	\$52	\$37
Wages	\$26	\$5
Total	\$495	\$90
Insurance and FEMA	\$313	\$20
Total Net Loss	\$182	\$70

Source: BBVA Research

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