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The Trouble with Calculating Cold Weather's Bite on the Economy

By Drake Bennett March 06, 2014

Yesterday the Federal Reserve's latest survey of economic conditions–the "beige book"–was released. The main finding of the nearly 50-page document was that the brutal cold and relentless snow that has made this a particularly unpleasant winter in many parts of the U.S. have also been tough on economic growth.

Economic activity over the past month and a half, the report found, continued to expand, but growth was for the most part "modest to moderate," slowing in sectors such as retail, and some parts of the country–even declining slightly in New York and Philadelphia. The "unusually severe weather" in much of the country, the Fed says, is largely to blame–it kept people off the roads, out of car lots and away from malls (unless, of course, they sought shelter there), it delayed construction jobs and it fouled supply chains and business trips and vacation plans.

The idea that bad weather slows economic growth is widely accepted–accepted enough that no one says anything when the Fed makes the connection. But there's very little economic research on the effects of bad winters on the economy–the beige book, the Fed makes clear, is based on "anecdotal information." What evidence there is suggests that the effects are typically localized and temporary. It may be that the effects on some industries–construction and automobiles–are cancelled out by the effects on others–ski resorts and online shopping and heating oil.

"I think that there is pretty solid evidence for the proposition that some kinds of weather can affect some industries in some parts of the country in the short term," says Jeffrey Miron, an economist at Harvard and the Cato Institute. Beyond that, he adds, it's hard to say.

Miron's Harvard colleague Melissa Bell has studied the climate-economy link–she's currently working on a paper surveying the entire economic literature on the topic. The vast majority of that work, she points out, isn't on cold, but on heat. There is some research on mortality rates–cold snaps seem to be more deadly than heat waves, but in general there's just less work on extreme cold. Bell suspects this is for two reasons. Historically, research on the economic effects of weather has focused on agriculture, and cold is less of an issue there for the simple reason that most agriculture happens during the year's warmer months (the danger of frost to citrus crops is a notable exception). "Second," she writes in an email, "the literature robustly shows that poor countries are more sensitive to extreme weather than richer countries, which tend to be better able to adapt." Mongolia and North Korea are the only two very poor cold countries, she points out (why this is is probably worth a web post of its own). Researchers have focused on extreme heat for the simple reason that it's the problem the world's more vulnerable economies face, and it's the direction the world's climate is heading in coming years.

It also might be, Miron suggests, because there just isn't much of an effect for economies like the US. Several years ago, he considered writing a paper about weather effects on the economy but gave up on it after he didn't find any. He suspects he's not the only one.

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