

Energy prices may decrease in Sandy's wake: economist

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While consumers are accustomed to seeing prices spike following natural disasters south of the border, Sandy's aftermath may have a very different effect on the pocketbooks of Canadians, according to one expert.

As the deadly post-tropical storm swept through the northeast United States, flooding subway tunnels, crippling Manhattan's Wall Street district and destroying thousands of homes and businesses, it also wiped out a significant demand for energy.

"A large portion of the U.S. population has been basically cut out from consuming or working for such a period of time and that means energy prices and demand might go slightly down," University of British Columbia economics professor Giovanni Gallipoli told CTVNews.ca.

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"These guys would normally buy gasoline, turn on the lights, use computers, go to work and use heating in their buildings. As far as I know half of Manhattan is in darkness."

With initial estimates pegging the damage caused by the superstorm at \$50 billion, Sandy is the second most expensive Atlantic hurricane to hit the U.S., only trailing Hurricane Katrina where damage was estimated nearer to \$100 billion.

Sandy left 70 dead in the U.S. and more than 4.6 million homes and businesses without power, while shutting down three major airports. The widespread destruction also took a bite out of energy demands, with millions of Americans unable to work, and consume, as they normally would.

"If you think about producing items, energy is used in almost all production," said Gallipoli. Pointing to the airline industry, he said consumers may see a sudden drop in prices if the cost of gasoline declines.

Along with temporarily stunting energy demands in the most densely populated region of the U.S., Sandy also created a construction boon that could see Canada reaping some of the benefits.

"There's been the destruction of a large scale of physical capital," said Gallipoli, pointing to houses, road infrastructure and factories. "In the next year or so we'll probably witness a very large scale of reconstruction in the area."

As Sandy's powerful winds and rains weakened as it moved inland mid-week, lumber prices surged to a 19-month high, spurred by a forecasted demand for construction material.

Canada is one of the world's largest producers and exporters of softwood lumber and its largest market is the U.S.

Gallipoli expects to see a similar spike in demand for metals and other building supplies.

He continued, "Right now housing in the U.S. is relatively depressed because of the financial crisis. All of a sudden you get all this additional demand for housing that came from nowhere."

But he warned that and fluctuation in prices would be minimal and short-lived.

"We won't see much change in consumer goods in Canada. If anything I expect we'll see some cheaper prices because of the sudden disappearance for a lot of demand in energy," Gallipoli said.

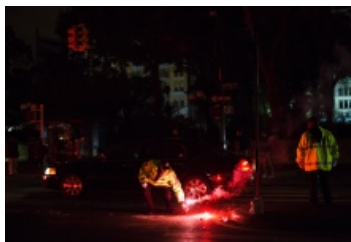
However, in the long-term, he said the effects of Sandy will create a positive demand shock.

"It created the need to invest, a need that was not there before."

PHOTOS



A crowd gather at a service station with portable containers, waiting for gas pumps to open, in the Brooklyn borough of New York on Saturday, Nov. 3, 2012. (AP /Bebeto Matthews)



A NYPD traffic officer lights a flare to illuminate a darkened street at Union Square whose power has been offline due to damage caused by Superstorm Sandy, Friday, Nov. 2, 2012, in New York. (AP / John Minchillo)

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