California Wildfires Cause $150 Billion in Economic Damage: AccuWeather Estimates

‘This is a fast-moving, wind-driven inferno that is threatening lives and causing catastrophic damage,’ AccuWeather’s Jonathan Porter said.

A firefighter watches the flames from the Palisades Fire burning homes on the Pacific Coast Highway amid a powerful windstorm in Los Angeles on Jan. 8, 2025. Apu Gomes/Getty Images

By Andrew Moran
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The Southern California wildfires that have killed at least five and forced tens of thousands of people to evacuate the area are expected to leave lasting economic damage of more than $150 billion, a new report suggests.

According to an updated estimate from AccuWeather, the major wildfires that have blanketed the Los Angeles area with thick clouds of smoke and ash could create economic losses between $135 billion and $150 billion.

Previously, the company had estimated the damage could reach $57 billion.

The early projection includes insured and uninsured losses. The report evaluated the disaster's direct and indirect effects, including damages to property, infrastructure, crops, and costs associated with evacuations, cleanup operations, and emergency management.

Jonathan Porter, the chief meteorologist of the weather-forecasting media company, stated that this wildfire is already among the most severe in the state's history. The situation may deteriorate further if additional structures are consumed by the flames in the coming days.

Based on recent forecasts, this could happen.

Moody's Risk Management Services noted that weather outlooks suggest that dry conditions and periods of Santa Ana winds could persist over the next week, further exacerbating the ongoing wildfires.

"This is a fast-moving, wind-driven inferno that is threatening lives and causing catastrophic damage," Porter said in a statement.

"This is a terrible disaster. We're just starting to get a clear look at the magnitude of the destruction and loss. Strong offshore winds have been gusting at 70–100 mph. Fire crews are dealing with hurricane-force wind gusts as they valiantly try to battle the flames and contain these fires."

By comparison, AccuWeather estimated that the economic losses from the 2023 wildfires in Maui, Hawaii, were $13 billion to $16 billion, and the 2021 wildfires in the western United States were $70 billion to $90 billion.

That said, the report stressed that estimates are subject to change because the full extent of the damage will be unclear until the fires have been doused and officials can survey the area.

As the fires spread from Malibu to Santa Monica, some of California's most expensive homes—with a median value of about $2 million—remain threatened.

Billions in Insured Losses

The insurance industry, meanwhile, is poised to face substantial losses.

According to Morningstar DBRS's early projections, the catastrophic event could result in $8 billion worth of insured losses.

"Property insurance affordability is likely to remain a challenge in the state going forward, with many property owners opting to remain uninsured or under-insured because of the high costs," Patrick Douville, the vice president of Global Insurance & Pension Ratings at Morningstar DBRS, said in a Jan. 9 note.

Bloomberg Intelligence analysts estimate $10 billion in insured losses because of the expensive homes at risk.

Looking ahead, homeowners can expect to face higher premiums and significant rate hikes, Gregg Barrett, the CEO at software insurance firm WaterStreet Company, said.

“Unfortunately, higher premiums are likely unavoidable in Los Angeles and the surrounding areas that are impacted by the fires,“ Barrett told The Epoch Times. ”This will mean significant rate hikes for homeowners in California, and nationwide, as insurers spread risk across their portfolios.”

The latest catastrophe will shine a fresh spotlight on the state’s home insurance market.

In recent years, California has witnessed an exodus of insurance companies, attributing their decisions to onerous pricing regulations and the ballooning cost of natural disasters.

The Eaton Fire engulfs a property in Altadena, Calif., on Jan. 8, 2025. Ethan Swope/AP Photo

This past spring, Tokio Marine America Insurance Co. and Trans Pacific Insurance Co. filed notices that they would no longer provide homeowners insurance umbrella policies. Four Kemper Corp. subsidiaries—Kemper Independence Insurance, Merastar Insurance, Unitrin Auto and Home Insurance, and Unitrin Direct Property and Casualty—stopped renewing preferred home and auto insurance policies.

For example, actor James Woods recently shared on social media platform X that a major insurance company "canceled all the policies in our neighborhood about four months ago."

Conventional insurers that have stayed behind, such as State Farm General Insurance Co. and Farmers Insurance, have introduced changes to their homeowners policies.

Last year, State Farm announced that it would discontinue California's 72,000 apartment, business, and home policies because of inflation and natural disasters.

"This decision was not made lightly and only after careful analysis of State Farm General's financial health, which continues to be impacted by inflation, catastrophe exposure, reinsurance costs, and the limitations of working within decades-old insurance regulations," the insurer stated in a March 2024 announcement.

Farmers Insurance capped the number of new monthly homeowners policies at 7,000. However, the company announced that it would increase the limit to 9,500 per month in December.

"Farmers Insurance has decided to take these steps to increase coverage availability for California consumers because we recognize that the state's insurance marketplace has indeed improved," said Behram Dinshaw, president of personal lines for Farmers Insurance.

Barrett noted that, following the latest wildfires, more companies could withdraw entirely from high-risk areas or implement stricter policy terms.

"New California regulations for this year will require insurers to cover specific percentages of high-risk areas, so some folks will still be able to get coverage, but it will undoubtedly be more expensive," he said.

Ultimately, said Mark Hamrick, senior economic analyst at Bankrate, the current economic environment can be challenging for the industry and current and prospective homeowners.

"Under normal circumstances, insurers can forecast and adjust to inflation, but volatility in prices, accelerating natural disasters and challenges on the regulatory front are proving to be making it difficult to overcome these rapidly moving puzzle pieces," Hamrick said in a report. "In turn, that's making it difficult for current and prospective homeowners to access and or afford home insurance."

Residents Turn to FAIR

With the private sector increasingly curtailing its exposure to California, residents and businesses are turning to the government-backed Fair Access to Insurance Requirements (FAIR) Plan. Established in 1968 following brush fires and riots, the FAIR scheme provides property insurance to state residents unable to purchase it from traditional insurers.

Data show that FAIR's exposure totals approximately $458 billion, up 61 percent since September 2023. This also includes nearly $6 billion in the Pacific Palisades.

Since 2021, the number of dwellings and commercial establishments receiving FAIR coverage has increased by 123 percent and 161 percent, respectively.

California Insurance Commissioner Ricardo Lara announced that communities affected by wildfires in Los Angeles County will be protected from homeowners insurance cancellation or nonrenewal for one year.

"Insurance companies are pledging their commitment to California, and we will hold them accountable for the promises they have made," he said in a statement.

Over the past year, officials have been employing measures to expand statewide insurance access.

Last month, the California Department of Insurance announced "first of its kind" efforts to boost insurance coverage for homeowners and businesses by using catastrophe modeling and rate-making regulation.

“Giving people more choices to protect themselves is how we will solve California’s insurance crisis,” Lara said in a statement. “For the first time in history, we are requiring insurance companies to expand where people need help the most.”

According to Denise Rappmund, a senior analyst at Moody’s, the wildfires will ultimately worsen the state’s insurance industry.

“These events will continue to have widespread, negative impacts for the state’s broader insurance market,” Rappmund said. “Increased recovery costs will likely drive up premiums and may reduce property insurance availability.”

Reuters contributed to this report.

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Andrew Moran has been writing about business, economics, and finance for more than a decade. He is the author of "The War on Cash."

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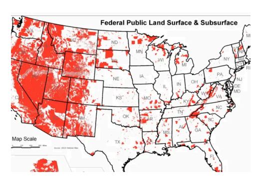

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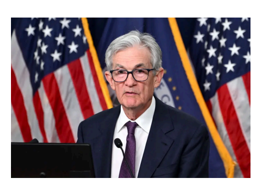

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