First Trust
Monday Morning OUTLOOK
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Temporary Weakness Won't Last

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Hurricane Sandy knocked out electricity all over and is now causing some flickering in the economic data. Real (inflation-adjusted) consumer spending fell 0.3% in October, the steepest drop since cash-for-clunkers ended in 2009, while real income slipped 0.1%. The ISM manufacturing index fell to 49.5 in November.

Considering that Sandy smashed the eastern seaboard and affected roughly 25% of the US population – with the brunt hitting New Jersey and New York – the economic damage will be spread out. Timing helped limit the impact on October data, given that the storm struck very late in the month.

Later today, we'll get a better gauge of how quickly activity will rebound from the storm. September auto sales clocked in at a 14.9 million annual rate (domestic sales plus imports), but the storm cut October sales to a 14.2 million pace. We expect November data will show a full rebound to the faster September pace, with more gains to come in December/January, due to both purchases delayed by the storm as well as replacements for destroyed vehicles. If correct, that would be a very positive sign.

Meanwhile, most investors will be waiting to see Friday's jobs report. We think payroll growth probably stumbled in November to an anemic 60,000 pace, just like job creation temporarily stalled after Hurricane Katrina in 2005. However, just like after Katrina, the key issue will be the speed and size of the rebound in coming months. At this point, we anticipate a rebound in December or January that gets us back to a trend just north of 150,000 payroll jobs per month.

If we take Sandy-influenced data at face value, it looks like the fourth quarter will show <u>zero</u> real economic growth. But, if the data rebound as we think late in the quarter, it's possible that we get low, but positive, growth of around 0.5% annualized.

When that Q4 report comes in the pouting pundits of pessimism will have a field day reporting that the sky is falling. However, it appears inventories and government spending will be the largest drags on growth. Other categories, including consumption, home building and business investment should not be as negative. In other words, the Plow Horse economy we've been talking about all year remains our base case.

Weak growth in Q4 will not tell us much about 2013. If the fiscal cliff gets fixed without major tax rate hikes, we could get real GDP growth near 3% next year, which includes continued loose monetary policy, the lagged effect of a turnaround in housing, Sandy-related rebuilding, and the replenishment of farm inventories depleted in this year's drought.

A continuation of the Plow Horse is nothing special, but given beaten down expectations, those who see through the temporary lull induced by Sandy and uncertainty will be rewarded.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
12-3 / 9:00 am	ISM Index – Nov	51.5	**51.6**	*49.5*	51.7
9:00 am	Construction Spending – Oct	+0.5%	**+0.7%**	*+1.4%*	+0.6%
Afternoon	Domestic Car/Truck Sales – Oct	11.5 Mil	**11.5 Mil**		11.1 Mil
12-5 / 7:30 am	Q3 Non-Farm Productivity	+2.7%	**+2.9%**		+1.9%
7:30 am	Q3 Unit Labor Costs	-0.9%	**-1.8%**		-0.1%
9:00 am	Factory Orders – Oct	0.0%	**-0.3%**		+4.8%
9:00 am	ISM Non-Man – Nov	53.5	**53.8**		54.2
12-6 / 7:30 am	Initial Claims – Dec 1	380K	**385K**		393K
12-7 / 7:30 am	Non-Farm Payrolls – Nov	90K	**60K**		171K
7:30 am	Private Payrolls – Nov	90K	**60K**		184K
7:30 am	Manufacturing Payrolls – Nov	-5K	**-10K**		13K
7:30 am	Unemployment Rate – Nov	7.9%	**7.9%**		**7.9%**
7:30 am	Average Weekly Earnings – Nov	+0.2%	**+0.1%**		+0.0%
7:30 am	Average Weekly Hours - Nov	34.4	**34.4**		34.4
8:55 am	U. Mich Consumer Sentiment	82.0	**83.0**		82.7
2:00 pm	Consumer Credit– Oct	$10.0 Bil	**$16.5 Bil**		$11.4 Bil