Economic Analysis
30 November 2012

U.S. Flash

Spending Falls and Incomes Stays Flat on Sandy's Impact

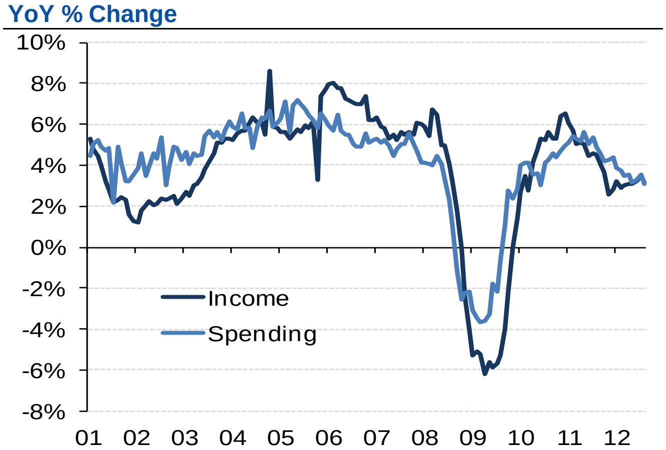
- **Consumer spending takes a hit, falling 0.2% as Hurricane Sandy halts shopping**
- **Personal incomes were flat for October following a 0.4% rise in September**
- **Spending and income decelerate to 3.1% YoY**

Yet again hurricane Sandy has imparted more negative effects upon the economy, this time in the form of a fallback in wages and salaries and a hit to consumer spending. Personal consumption expenditures dropped 0.2% in October, the first decline in four months, following a 0.8% jump in September. Although the hurricane made land fall very late in October, consumer spending on goods declined 0.7% from September as the Northeast went offline for the remainder of the month while they recovered. Aside from a similar decline in spending in May, October's drop marks the largest in consumer spending since late 2009. Not all was lost however, as spending on services actually increased 0.11%. In general, the figures, while negative, do not clearly point to a sustained decline in spending as the Northeast regains momentum and shoppers gear up for the holiday season. Increased consumer confidence and sentiment should be enough to entice shoppers for November as they filled shopping centers for the post Thanksgiving sales.

The other facet of the report, personal income, were less telling, remaining flat after a 0.4% increase in the prior month. The wages and salaries component actually declined 0.3%, the first such decline in 2Q12. Hurricane Sandy left much of the Northeast on hold for several days, cutting back working days and potential income. We can assume that with the storm's recovery and the influx of back-to-work employees in November should boost income back up again. For both income and spending, YoY growth decelerated to 3.1% to mark the slowest rates in many months.

Overall, it is hard to get a clear reading on the true trends to start the fourth quarter given that Sandy's impact overlaps both October and November. On top of that, the fiscal cliff poses a threat to consumer spending for the coming months with the threat of higher taxes and lower disposable income in 2013. However, a first look at the holiday shopping season hints at some optimism that the consumption figures will recover somewhat in November and December. Ultimately though, the lack of momentum from personal income, household debt burden, and fiscal uncertainty may still hinder significant growth until income shifts back to the upside.

Chart 1
Personal Income and Spending
YoY % Change



Source: Bureau of Economic Analysis & BBVA Research

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