

Macro Musings

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The Economic Impact of Hurricane Sandy

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About Standish*

- Founded in 1933
- Dedicated exclusively to fixed income
- \$103 billion under management
- 98 investment professionals
- Domestic, regional, and global mandates

* Assets under management (AUM) as of September 30, 2012. This figure includes assets managed by Standish personnel acting as dual officers of The Dreyfus Corporation and The Bank of New York Mellon, also subsidiaries of The Bank of New York Mellon Corporation.

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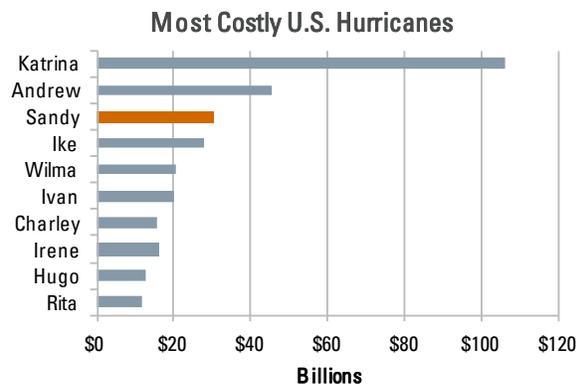


Our thoughts are with those who have been affected by the storm and we are hopeful that the worst has passed.

- Evidence from previous storms suggests the economic impact of Hurricane Sandy is likely to be relatively short-lived.
- Although the affected states represent nearly one-quarter of the U.S. economy, we only expect a modest negative impact on real GDP in Q4 followed by a modest positive impact in Q1 2013 (net neutral).
- Next year, we are more concerned about the potential impact of the U.S. fiscal cliff than we are about any lingering effects from the hurricane.

Assessing the Damage

Initial estimates suggest that Hurricane Sandy inflicted \$30 billion to \$50 billion in total losses according to Eqecat a catastrophic risk modeling firm that advises the insurance industry. Even if this estimate proves too low, it would still place Sandy



Source: National Oceanic and Atmospheric Administration as of 2011 and Eqecat as of 2012
*Note: Midpoint of initial estimates from Eqecat

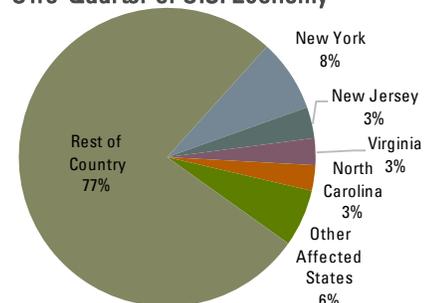
amongst the ten costliest U.S. hurricanes in history, though well short of the top spot held by Hurricane Katrina, which caused property damage worth \$106 billion.

Private sector insurance is only on the hook for about half of the losses since most of the damage was the result of flooding, which is an exemption on the majority of homeowner's policies. Instead, the Federal government will be footing the bill through the National Flood Insurance Program, which is already short of funds and will probably be forced to ask Congress for additional resources. However, we do not expect this to be an impediment to the rebuilding process.

Net Economic Impact Probably Neutral

Although the states affected by Hurricane Sandy represent about 23% of the U.S. economy, we only expect a modest negative impact on Q4 2012 GDP followed by a modest positive impact in Q1 2013. The reason is that GDP is a measure of output and few manufacturers have major production facilities along the eastern seaboard. Thus, the probability of long-term supply disruptions, such as those which occurred following the Japanese earthquake/tsunami in 2011, seems low.

Affected States Represent Nearly One-Quarter of U.S. Economy



U.S. Nominal GDP = \$15.5 Trillion

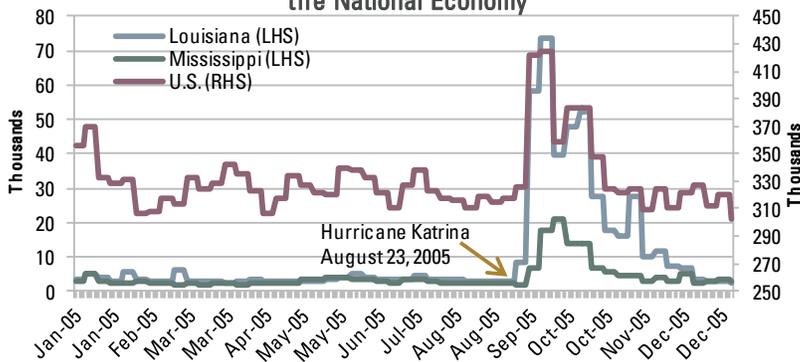
Source: Bureau of Economic Analysis as of 2011

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Consumer spending may suffer a short-term setback, but this should reverse quickly once the power outage ends and public transportation is back up and running. Consequently, monthly retail sales may soften in November before rebounding again in December.

We would not be surprised to see a temporary spike in initial claims for unemployment insurance in the coming weeks. Two weeks after Hurricane Katrina, jobless claims spiked from 326,000 to 422,000 due almost entirely to an increase in claims in the areas affected by the storm in Louisiana and Mississippi. The national claims data returned to pre-Katrina levels about a month later, but the claims data in the affected states remained elevated for several months.

Katrina Had an Immediate, But Short Lived Impact on the National Economy



Source: Bureau of Labor Statistics as of 2012

Property damage along the coastline in New York and New Jersey appears severe, but unlike with Hurricane Katrina these are mostly second homes and vacation areas where the numbers of full time residents drops considerably after the summer. This should accelerate the rebuilding process in these areas, which could bolster construction activity as soon as the early part of 2013.

Therefore, while we will be closely monitoring economic developments related to Sandy, we remain comfortable with our below consensus forecast for U.S. economic growth of 1.7% in Q4 2012. Next year, we are more concerned about the potential impact of the U.S. fiscal cliff than we are about any lingering effects from the hurricane. Our projection for 2013 real GDP growth remains at 1.5% versus the Bloomberg Consensus of 2.0%.

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