BUSINESS

Businesses antsy about cliff

Private sector retrenching amid uncertainty; consumers, meanwhile, still spending freely

By Tim Mullaney
USA Today

After Friday's report that the economy grew at a 2 percent annual rate in the third quarter, what does the current quarter hold? And how about 2013?

The answer depends on who's right about the economy, and especially the so-called "fiscal cliff" looming at year's end. Executives who invest in software, equipment and office space are pulling back, worried about how Washington will settle the standoff on deficit-reducing tax increases and spending cuts. Consumers, who are spending more on houses and cars, appear to think Washington will reach some agreement.

"Consumers aren't as focused on the fiscal cliff," said Michael Hanson, an economist at Bank of America Merrill Lynch. "They budget, but don't plan as intently as businesses."

The housing recovery and strong consumer confidence would keep the economy growing, possibly as little as 1 percent in early 2013, even if the government-imposed austerity measures reduced GDP by 2 percent, Hanson said. That could take the form of ending the payroll tax cut while extending the Bush tax cuts, and saving some defense spending while cutting unemployment insurance taxes.

The median forecast of 48 economists surveyed by USA Today before Friday's report predicted the economy will grow 1.9 percent this quarter and next, strengthening in the middle of the year and reaching a 2.8 percent growth rate late next year.

Growth of under 3 percent is still weak. Moreover, the majority of economists surveyed assume Congress and the president will compromise on the fiscal cliff issue without significant damage to the economy.

But if officials don't make a deal, the effect could be disastrous, according to the National Association of Manufacturers. If all scheduled spending cuts and tax increases kick in, the impact would cost 6 million jobs, and unemployment could top 11 percent by 2014, the lobbying group said.

"Across the board, the uncertainty is crippling," said NAM Vice President Dorothy Coleman. "People don't know what the rules of the game will be next year."