Retirement Income
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Washington freeze chills the whole economy

By Editor Test *Wed, Aug 8, 2012*

Manufacturing executives from across America told the New York Times that they are all but paralyzed by anxiety about the "fiscal cliff" and a potential drop in GDP as a result of reduced government spending.

The pervasive sense that manufacturers are not investing or hiring this summer because of uncertainty—about the presidential election, the automatic spending reductions associated with the impending "fiscal cliff," and the potential end of the Bush-era tax cuts in January—was documented in an article Monday in the *New York Times*.

The *Times* interviewed several executives who confirmed that industry is waiting for clear signals from Washington before placing any bets on the future.

"We're in economic purgatory," said Alexander M. Cutler, the chief executive of Eaton, a big Ohio maker of industrial equipment like drive trains and electrical and hydraulic systems. "In the nondefense, nongovernment sectors, that's where the caution is creeping in. We're seeing it when we talk to dealers, distributors and users."

At Siemens, CFO Joe Kaeser said the German industrial giant has been slow to fill openings among its 60,000-member work force in the United States, while delaying some new investments and capital expenditures. "We would expect volatility till after the election and the fiscal cliff is sorted out," he said.

"The fiscal cliff is the primary driver of uncertainty, and a person in my position is going to make a decision to postpone hiring and investments," Timothy H. Powers, CEO of Connecticut-based electrical products maker Hubbell Inc., told the Times. "We can see it in our order patterns, and customers are delaying. We don't have to get to the edge of the cliff before the damage is done."

The *Times* cited data that reflect the slowdown. The annual rate of economic growth in the second quarter fell to 1.5% from 2% in the first quarter, and 4.1% in the last quarter of 2011, it reported. Labor market data showed job creation still falling short of the level needed to bring down the unemployment rate. On Thursday, the Commerce Department reported that factory orders unexpectedly fell 0.5% in June from the previous month.

A survey by Morgan Stanley in July showed that more than 40% of companies polled cited the fiscal cliff as a major reason for their spending restraint, according to Vincent Reinhart, chief U.S. economist at the bank. "Economists generally overstate the effects of uncertainty on spending, but in this case it does seem to be significant," he told the *Times*. "It's at the macro- and microeconomic levels."

Unless Congress acts to extend the tax provisions and agrees on a budget that averts the planned reductions in spending on military and other programs, taxes will rise by $399 billion while federal government spending will fall by more than $100 billion, according to the Congressional Budget Office.

The fiscal cliff’s total impact equals slightly more than $600 billion, or 4% of GDP. The Congressional Budget Office projects that, if no action is taken, the economy will shrink by 1.3% in the first half of 2013 as a result.

Last week, Congressional agreed tentatively to keep the government financed through next March, extending a deadline that had been set to expire Oct. 1, but that deal did not address the extension of the tax cuts or spending reductions.