U.S. fiscal deal to dampen consumption: economists

WASHINGTON, Jan. 3 (Xinhua) -- A portion of the fiscal cliff deal that the U.S. Congress hammered out Tuesday could weaken U.S. consumption amid an economy struggling to recover from the worst recession in decades, economists said Thursday.

"The withholding from individual paychecks is going to be a lot higher this year," said Michael Brown, economist with Wells Fargo, referring to the 2 percent payroll tax hike that was part of the fiscal deal.

That will eat away at disposable income and cut into consumer expenditures, Brown said.

"Those very discretionary things, going to movies, dining out, those would probably be hit first," he said.

While higher taxes hurt even in good economic times, the payroll tax hike comes amid a weak economy that saw 19 trillion U.S. dollars of Americans' wealth wiped out between 2007 and 2009 and while millions still struggle to make ends meet.

"The story is that we still have a tremendous number of households that continue to experience very slow income growth in general because of overall economic conditions," he said, adding that the tax increase puts more pressure on household budgets.

A Wells Fargo report released Wednesday said the tax will impact workers' take-home pay to the tune of 30 billion U.S. dollars per quarter.

The report also said that the eleventh-hour deal means tax filing this year will be delayed, as will tax refunds, which totaled more than 200 billion U.S. dollars in the first quarter of 2012.

And that could mean it will take longer for Americans to inject their refunds into the consumer-driven economy by heading to their local shopping mall or car dealer, the report said.

The hit, however, will not be as severe as the spate of tax hikes that would have gone into effect if Congress had failed to avert the fiscal cliff, Brown added.

Those sentiments were echoed in a report released Wednesday by New York-based BlackRock, the world's biggest money manager.

"The fiscal drag left in place by the deal, coupled with the lingering uncertainty surrounding the debt ceiling, leads us to expect a weak economic start to 2013," the report said, referring to the looming debt ceiling talks.

"The market consensus currently is for first-quarter growth to be roughly 1.6 percent, a rate we find to be overly optimistic," the report said. "We do expect the U.S. economy to rebound later this year, but it is unlikely to accelerate above a 2 percent annual growth rate."