Survey: Europe still risk to U.S.

But economists see faster growth ahead as 2011 ends on an upswing

By Paul Wiseman
The Associated Press

WASHINGTON — The U.S. economy will grow faster in 2012 — if it isn't knocked off track by upheavals in Europe, according to a survey of leading economists.

Unemployment will barely fall from the current 8.6 percent rate, though, by the time President Barack Obama runs for re-election in November, the economists say.

The three dozen private, corporate and academic economists expect the economy to grow 2.4 percent next year. In 2011, it likely grew less than 2 percent.

The year is ending on an upswing. The economy has generated at least 100,000 new jobs for five months in a row — the longest such streak since 2006.

The number of people applying for unemployment benefits has dropped to the lowest level since April 2008. The trend suggests that layoffs have all but stopped and hiring could pick up.

And the economy avoided a setback when President Barack Obama signed legislation Friday extending a Social Security tax cut that was to expire at year's end. But Congress could agree only on a two-month extension.

The economists surveyed Dec. 14-20 expect the country to create 177,000 jobs a month through Election Day 2012. That would be up from an average 132,000 jobs a month so far in 2011.

Dean Maki, chief U.S. economist at Barclays Capital, says the U.S. economy remains vulnerable to an outside shock. A big threat is the risk that Europe's debt crisis will trigger a worldwide credit freeze like the one that hit Wall Street in late 2008.

A shock to the U.S. economy, he says, might not be as dangerous if it were growing at a healthier 4 percent to 5 percent annual pace. But when growth is stuck at 2 percent or 3 percent, a major global crisis could stall job creation and raise unemployment.

Beyond Europe, troubles in other areas could also upset the U.S. economy next year, the economists say. Congressional gridlock ahead of the 2012 elections and unforeseen global events, like this year's Arab Spring pro-

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tests, could slow the U.S. economy. Three economists said rising nuclear tensions with Iran are a concern.

Even without an outside jolt, the economists expect barely enough job creation in 2012 to stay ahead of population growth and the return of discouraged workers into the labor force.

"I just don't know if it's going to be enough to bring the unemployment rate down," says Chad Moutray, chief economist for the National Association of Manufacturers.

The AP economists expect the unemployment rate to be stuck at a recession-level 8.4 percent when voters go to the polls in November. Unemployment was 8.6 percent in November.

A majority (56 percent) of the economists say the economy will get a lift from Federal Reserve policies. The Fed has said it plans to keep short-term interest rates near zero through at least mid-2013 if the economy remains weak. The central bank also has begun a campaign to try to push down mortgage rates and other long-term interest rates through next June.

Those surveyed also think the economy is strong enough to withstand higher oil prices. At near $100 a barrel, oil prices are up 10 percent from a year ago. But only two of the economists AP surveyed expect the higher prices to slow the economy "a lot."

The economists expect the European economy to shrink 0.5 percent in 2011 — and fall into a recession. Europe is slowing as heavily indebted countries slash spending and banks exposed to government debt curtail lending.

Among the gravest fears is that a major country like Italy will default on its debt, wiping out some banks with large holdings of European government bonds. A worldwide credit crunch like the one that followed the 2008 failure of Lehman Bros could follow.

Twenty-one of the economists listed Europe as a threat to the U.S. economy next year.

"If it were a big enough downturn, given the size of Europe, it could bring the world economy down into recession," says Allen Sinai, president of Decision Economics.

But overall, the economists see only an 18 percent chance that Europe's debt troubles will cause a recession in the United States.

The economists are divided over which one step European policymakers should take now to bolster the 17-country eurozone.

More than one-fourth say the European Central Bank should aggressively try to lower the borrowing costs of the Italian and Spanish governments by buying their bonds.

Nearly one-fifth say European countries should jointly issue "Eurobonds" to help finance weaker countries.

And 17 percent say European governments should slash spending.

Still, the economists expect European policymakers to find a way to prevent the crisis from escalating into a global financial panic.

If Europe can stabilize its economies, the U.S. stock markets would rally sharply, economists say, and prospects for U.S. economic growth would brighten.

"Europe appears to be the only real impediment to keeping this recovery from happening," said Joel Naroff, president of Naroff Economics.