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A muted recovery is forecast for U.S. and global economies

The Organization for Economic Cooperation and Development warns, however, that U.S. fiscal policy risks and European debt crisis could cause another recession.

By Don Lee
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WASHINGTON — In a grim new forecast, a leading international economic group sharply cut its outlook for U.S. and global growth next year and warned that the debt crisis in Europe and fiscal policy risks in America could plunge the world back into recession.

As it stands now, the industrialized world is looking at a muted and uneven recovery over the next two years, according to the Organization for Economic Cooperation and Development.

The Paris-based OECD projected gross domestic product across its 34 member nations — which include the U.S., Japan and the 17-nation Eurozone — to grow a sluggish 1.4% next year. That is down from 2.2% that the group had forecasted six months earlier.

Growth prospects in the U.S. also were slashed for next year. Experts at the OECD now see inflation-adjusted GDP, the broadest measure of economic activity, rising 2% next year in the U.S., roughly equivalent to this year and down from its earlier forecast of an increase of 2.6%.

The new projections are all the more sobering in that they are based on assumptions that Europe's debt crisis won't get much worse and that the U.S. won't go over the so-called fiscal cliff — a combination of more than $500 billion in automatic tax hikes and federal spending cuts slated to begin at the start of next year.

"If key adverse risks cannot be averted, and especially if the Eurozone crisis were to intensify significantly, the likely outcome would be considerably weaker, potentially plunging the global economy into deep recession and deflation, with large additional rises in unemployment," the OECD said.

The report, released Tuesday, is on the pessimistic side.

Although economists widely agree on the recession risks in the event that the U.S. isn't able to solve the fiscal impasse, a number of experts now say that the U.S. and global economies could see considerably stronger growth next year if Washington can reach agreement on tax and spending policies that avoid a big fiscal contraction in 2013.

"The economy in the U.S. is really poised to grow," said **Bernard Baumohl, chief global economist at the Economic Outlook Group,** noting that GDP growth in the U.S. could surge to a solid 3.5% or higher next year if the budget issues are resolved.

The latest forecast from the Federal Reserve, compiled in mid-September, sees U.S. GDP increasing 2.5% to 3% next year.

Baumohl's reasons for greater optimism include a recovering housing market, improving job growth and healthier personal finances, all of which should help drive stronger consumer spending.

Total consumer debt, which has fallen for four years, dropped by $74 billion to $11.31 trillion in the third quarter from the previous quarter, and it is now down $1.37 trillion from the peak in September 2008, according to a report Tuesday from the New York Fed.

Reflecting these trends, the Conference Board said Tuesday that its latest survey showed consumer confidence at its highest level since early 2008, results similar to a survey by the University of Michigan.

American business sentiments, however, have been more cautious of late, and many companies have held back on making investments in recent months. But banks are generally in good shape, and big companies are sitting on mountains of cash and are expected to ramp up investments once the fiscal and tax pictures become clearer.

The OECD report nodded to these factors, but noted that the global recovery slowed markedly over the last year amid faltering confidence and weakening world trade, in part because of problems in the Eurozone, which contributed to an unexpectedly strong slowdown in developing countries such as China.

The 17-nation Eurozone will probably remain in recession well into next year, the OECD said.

Meanwhile, Japan, the world's third-largest economy, has fallen back into a downturn after a growth spurt last year aided by massive reconstruction spending following the earthquake and tsunami in March 2011. The Japanese economy is expected to move at a lumbering pace over the next two years.

The outlook for China, Brazil and India — three of the biggest developing economies, none of which is a member of the OECD — looks comparatively brighter: Growth will probably accelerate next year and in 2014, with China, the world's second-largest economy, again leading the pack.

The OECD forecast sees China's GDP expanding 8.5% next year and nearly 9% in 2014 after slowing this year to about 7.5%.

Although far from immune from the troubles in the U.S. and Europe, which still account for much of the global demand for goods, China and other major emerging economies have more wherewithal to boost growth than their more-indebted developed counterparts by ramping up government spending and lowering interest rates.

The report notes that spending cuts throughout OECD member countries have taken a toll on economic growth, particularly in the Eurozone, where GDP growth for next year was slashed to -0.1% from a positive rate of 0.9%.

Many developed countries are now struggling with financial and economic challenges related to an aging population, large public debts and high unemployment.

Assuming Europe's debt crisis stabilizes, the Eurozone is forecast to recover in 2014. For OECD countries overall, GDP growth is projected to pick up in 2014 to 2.3%.

The U.S. economy is expected to outperform most other OECD nations in 2014, with its GDP stepping up to a more sturdy growth of 2.8%. That compares with the Fed's forecast of 3% to 3.8% growth in 2014.

Either way, U.S. economic growth isn't likely to come close to keeping up with the rapid advance of developing countries, notably China.

Last year, the U.S. accounted for 23% of the global economy, with the Eurozone and China tied for second, each with a 17% share each.

But by 2030, the OECD estimates, China's share of the global economy will rise to 28%, while the U.S. will slip to No. 2 with 18% of world GDP, and the Eurozone's share will fall to 12%.

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