

U.S. economy to suffer triple dip in 2012: economist

NEW YORK, Dec. 18 (Xinhua) -- As the painful double-dip in the U.S. economy at the beginning of the year still weighs on Americans, a renowned Wall Street economist warned of a triple dip ahead.

Ethan Harris, co-head of Global Economics Research at Bank of America Merrill Lynch, said that despite the recent pick-up in growth, the U.S. economy is going to slow down once again over the course of 2012.

"Each year since the recession, we've had the economy pick up for a while, then fade, and each time there has been some kind of shock that comes along and derails the economy," Harris said in an exclusive interview with Xinhua.

He expected that the shocks will be a combination of events in Europe and fiscal problems in the United States.

"So even though the U.S. economy is now in one of those better phases of recovery and the data has been quite solid in recent months, the shocks ahead are significant and we do expect for the third year in a row, a period of weakness in the economy," said the economist.

The first shock to the U.S. economy in the next year, according to Harris, is the ongoing European debt crisis.

Noting that a European recession in the first half of next year is almost inevitable, he made a baseline forecast of "a 50 percent chance for Europe to dip into mild recession and a 40 percent risk for the region to suffer a major recession."

Coupled with a European crisis spilling over and hurting U.S. trade and confidence are two home-grown shocks facing the United States, warned Harris.

"The first is fiscal austerity," he said. "In 2012, we think new fiscal actions worth of about 1.5 percent of GDP will constrain growth starting in the beginning of the year."

The second comes from policy uncertainty, he said.

"In the next year, under the current law, we get 150 billion dollars in spending cuts, we get the expiration of all Bush tax cuts and we hit the debt ceiling sometime early 2013," Harris noted.

"By current law, the government has left the lame duck session of congress to deal with the most difficult set of fiscal decisions in modern history," Harris said. "So my view is the economy will slow further into the election next year."

With fiscal policy tied up in political knots, Harris expected the Federal Reserve to remain active in the year ahead by extending its "promise" to hold interest rates near zero into 2014 and announcing another big asset buying program after Operation Twist ends next summer.

However, Harris was not optimistic about the role of a third round of quantitative easing (QE3) in promoting the economy.

"When the fed does QE, really what they are doing is they are getting the interest rates a tiny bit lower, and they are hoping to create a little bit of confidence, but it's not really addressing the core issue," he said.

"It's just to show the Fed is still on the game," he added. "It's all about boosting confidence."