TD Bank predicts 2% growth, 8.8% unemployment in 2012

By Editor Test *Mon, Dec 19, 2011*

Economic headwinds include "market volatility, Europe's banking and fiscal crises, a polarized US Congress and overzealous fiscal restraint in Washington."

Despite signs of progress over the last few months—the economy grew at an annualized rate of 2% in July and September—the U.S. recovery remains vulnerable, according to a report released by TD Economics, an affiliate of TD Bank.

Although TD Economics projects 3.2% growth in the closing months of 2011—"economy's best quarterly performance since mid-2010"—it expects growth of only about 1.9% during 2012 and 2.3% in 2013. The unemployment rate is expected to remain elevated at 8.8% by the end of next year, and 8.4% by 2013.

The main headwinds, according to the report, are "financial market volatility, Europe's dual banking and fiscal crises, and a highly polarized U.S. Congress," as well as "overzealous fiscal restraint in Washington."

A "disconnect" exists between positive economic performance and persistent economic pessimism among businesses and households, which seems to discount modest improvements in commercial bank lending, employment, credit quality, and credit delinquency rates since the financial crisis.

TD Economics forecasts the eurozone economy to contract 1.2% in 2012. "Though the U.S. banking system has relatively small exposure to the debt of the most troubled periphery nations, a failure on the part of European policymakers to contain the crisis could lead to financial contagion migrating West," the report said. "The eurozone's governing structure was not built to take on the kind of extraordinary decisions at the kind of extraordinary pace the situation requires."

The failure of the Congressional "supercommittee" to reach consensus on deficit reduction may lead to steep spending cuts by 2013, and "partisan jockeying" on the payroll tax cut and emergency unemployment benefits could reduce economic growth by 0.7% next year, the report added. 234 – tasked with drawing up plans to bring the country's deficit trajectory under control – failed to reach a consensus. As a result, steep spending cuts are slated to come into place by 2013. Partisan jockeying has left Congress at an impasse over whether to extend this year's payroll tax cut and emergency unemployment benefits into 2012. Failure to do so could result in as much as a 0.7 percentage point drag on economic growth next year.