An Economic Forecast for 2012

Most of 2011 was spent worrying whether the economy would plunge over another cliff. This year could just ratchet up the pressure—or not. The future is murky.

To get an informed view of where the economy may be headed this year, CBN News interviewed Mark Skousen, the editor of the influential *Forecasts & Strategies* newsletter in his hometown headquarters of Dobbs Ferry, N.Y., along the Hudson River.

Skousen is keeping a wary eye on Europe. He's worried the continent's spreading debt crisis will take down the European Union, and could seriously hurt the United States as well.

Worst-Case Scenario
"What you're facing is the possibility of an unraveling of the eurozone," Skousen told CBN News.

The worst-case scenario?

"It's a major recession. It's riots in the streets. It's a collapsing stock market, a stock market crash," Skousen stated. "All of the scenarios of your worst nightmare is what people are in fear of."

Bill Beach, a top economic analyst at the Heritage Foundation, explained how the U.S. could get dragged into Europe's crisis. He said if countries like heavily-in-debt Italy default on their debts, it will likely kill many major banks in Europe.

That in turn could topple American giants, Beach predicted, "As major financial institutions from Bank of America to Goldman-Sachs, Morgan-Stanley, all of these that are now banking operations, begin to see their investments in those European banks extinguished."

Mideast Woes = Pain at the Pump

Beach worries about a whole other region that could create problems for America –the oil-rich Middle East.

"Anything that disturbs the Middle East affects the oil price, which affects the course of our economy," he told CBN News.

He noted that the so-called Arab Spring may be producing more radically Islamic regimes.

"The governments that are coming in are not coming in as progressive governments that have a favorable view to Israel," he explained.

The situation raises the concern that if Iran and Israel get into a military confrontation over Iran's possible nuclear weapons, other Islamic powers could also go after the Jewish state and turn this into a region-wide war that could threaten the oil supplies and cripple the economies of both Europe and the U.S.

Still, the U.S. doesn't have to look outside its borders to find another source of problems.

Debt Downgrade Looms
Both Skousen and Beach worry if Washington politicians can't agree to tackle the huge annual federal deficits and $15 trillion federal debt, America's credit rating will fall and shaky times will grow shakier.

"Congress was supposed to come up with a solution and they didn't come up with a solution," Beach said. "And all of the financial credit rating agencies are very concerned about it."

But Skousen's outlook isn't all gloom and doom. He's hoping the Federal Reserve may soon raise interest rates after keeping them so low for so long. He says such a move would be a sign that economic growth is coming back.

"If they raise interest rates, that will send a message out to all the world that we're back to normal, we're moving back to normal," Skousen suggested.

Beach sees many positive trends for at least one sector of America's economy.

"I think 2012 will see the United States hold and grow its dominance in the high-technology area," Beach predicted. "We're seeing a lot of entrepreneurial activity, new firms, new start-ups."

All Eyes on November

Skousen says corporations have been making record profits, but have been frozen with fear that investing, building, expanding and hiring may not be the smart thing to do if the Democrats win Congress and Barack Obama recaptures the White House in 2012.

Their worry, Skousen said, is "If Obama remains an ideologue, then it could be another four frustrating years."

Many seem to have their fingers crossed that more business-friendly politicians will win in November, wiping out liberal initiatives.

"I think there's a real possibility that if the Republicans gain control of Congress and the presidency that a lot of this will be reversed and that businesses will just load up and start investing and hiring people and so forth," Skousen explained.

"But remember," Beach warned, "whether President Obama is elected or Gov. Romney or Speaker Gingrich or whoever, the main problem remains right in front of us—that is, the fiscal mess of the United States government."

So in the coming year, the American economy could go either up or down. Much may depend on Europe and its debt crisis and on whether American politicians continue to hamper or help American businesses.