



Fears intensify about Greek crisis' impact on US

The Associated Press | 07 May 2010 | 06:52 PM ET

WASHINGTON - The stock market's slump this week reflects a widespread concern among many economists that the European debt crisis could slow the U.S. economic recovery.

Few expect the problems in Greece and other European nations such as Portugal and Spain to drag the United States back into recession. But the crisis has increased the uncertainty facing U.S. business leaders.

"The perception of risk has just changed in a major way," said Mark Vitner, senior economist at Wells Fargo Securities. "Business leaders now think there is more risk in the world economy than they did 30 days ago."

A weaker European economy could reduce demand for U.S. exports, as European consumers cut back their purchases of autos, appliances and other goods.

And as the euro declines in value compared to the dollar, U.S. goods become more expensive in the 16 countries that use the European currency.

"There is some negative effect on the U.S. economy, no doubt," said Michael Mussa, senior fellow at the Peterson Institute for International Economics.

Still, Mussa said the impact in Europe will likely be greater. While Greece's economy isn't that large, many major European banks hold billions of dollars of its debt. Should Greece default on or restructure its debt, which many economists expect, those banks — still recovering from the 2008-2009 financial crisis — may cut back lending to conserve cash.

That's even more likely if other highly indebted nations, such as Ireland, Spain, or Portugal also run into problems financing their deficits. Tighter credit would slow Europe's economy.

And efforts by Greece and the others to reduce their deficits, through tax increases and spending cuts, could also worsen their economies.

The growing European debt crisis has sent stock markets on a wild ride. The Dow Jones industrial average fell 140 points, or 1.3 percent on Friday. That followed the 1,000 point plunge Thursday afternoon, before the markets recovered to close with a 348-point loss.

Vitner said he worries that Europe's debt crisis could tip the 16 countries that use the euro back into a recession. The euro area comprises the second-largest economy in the world, after the United States. And as in the United States, Europe's economy has been slowly recovering from recession.

Economists say the situation is reminiscent of the collapse of Lehman Brothers in the fall of 2008. The resulting chaos caused banks to clamp down on lending. Nervous consumers stopped spending. Companies facing plummeting sales cut back on production and laid off millions of workers.

Some economists raise the prospect of a similar cycle in Europe.

"Europe feels like we did after Lehman Brothers," said Barry Eichengreen, an economics professor at the University of California, Berkeley. "No one has seen this kind of thing before ... and they are questioning the competence of their leaders to deal with it, and rightly so."

European consumers may soon cut back on purchases of new cars or appliances, Eichengreen said, "because they don't know what's next."

President Barack Obama's goal of doubling U.S. exports over the next five years is unlikely to be reached under these conditions, economists say.

Obama's plan "is completely off the table if the dollar remains strong and one of the leading economic areas enters a deep recession," said Eswar Prasad, an economics professor at Cornell University.

A \$140 billion rescue package agreed to by the International Monetary Fund and European leaders has failed to resolve concerns in the financial markets that Greece might default on its debts.

The concerns are likely amplified, economists said, because memories of the 2008 crisis are still fresh. Before the recession, many experts, including Federal Reserve Chairman Ben Bernanke, said the fallout from the subprime housing bust wouldn't spill over to the broader economy.

"Remember, people thought the subprime mortgage crisis would go away, and it didn't," said Sung Won Sohn, an economics professor at the Smith School of Business at California State University.

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AP Economics Writer Martin Crutsinger contributed to this report.

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