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UPDATE 3-White House sharply cuts U.S. growth forecast

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* Midyear budget review trims growth, deficits forecast

* Unemployment to average 9.1 pct 2011, 9.0 pct 2012

* Growth in 2011 seen 1.7 pct, 2.6 pct 2012, 3.5 pct 2013

* Budget deficit seen declining to 6.1 pct of GDP in 2012 (Adds more reaction, paragraph 13)

By Alister Bull

WASHINGTON, Sept 1 (Reuters) - President Barack Obama sharply cut estimates on Thursday for U.S. economic growth, underscoring the difficult challenge he faces in spurring a stronger recovery and creating more jobs.

In a midyear review of his annual budget, Obama predicted average unemployment of 9 percent in 2012, when he will have to fight for re-election. The president will give a major speech on Sept. 8 on how he plans to lift hiring and growth.

"The economic projections make clear there is a real need in the short term to kick-start economic growth and get on a sustained higher growth path," White House budget chief Jack Lew told reporters on a conference call.

Obama must convince voters his policies are working in order to retain the White House, but doubts have grown over his stewardship of the economy after a summer of wild stock market swings and a raft of bad economic data that underlined the risk of the country plunging back into recession.

A new CNN/ORD poll found 65 percent of respondents disapproved of his handling of the economy, reflecting the harm done by a bitter budget fight between Obama, a Democrat, and Republican lawmakers that led to ratings agency Standard & Poor's cutting America's top-notch AAA credit rating.

"He needs to frame the election so it is focused on the future and not focused on the present," said Jim Kessler, a political analyst at Third Way, a think tank in Washington, who doubts Obama has much power to give growth a pre-2012 boost.

In the midyear review, the White House offered some hints of what Obama will say in his address to Congress next week. It said the speech could include proposals for a mixture of tax cuts aimed at middle-class families, infrastructure spending and aid for the long-term unemployed.

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Economic growth was marked down compared with what the White House had forecast in February, with conditions deteriorating even further after the administration locked down its predictions in June for the midsession review.

As a result, it offered an alternative economic forecast based on what has happened in recent weeks. That projects GDP growth this year of 1.7 percent, compared with 2.7 percent expected back in February, with 2.6 percent forecast for 2012, down from a 3.6 percent prediction in February.

But the more subdued growth outlook did not have a major impact on the expected deficits, and growth was expected to rebound to above 4 percent by 2015.

For the budget outlook, the White House said the deficit would now decline to 6.1 percent of GDP in 2012 from a projected 8.8 percent this year.[ID:nW1E7JM01M]

But critics were skeptical and said the longterm projections were unduly rosy.

"The president has the deficit falling from $1.3 trillion this year to $473 billion in 2014. Should we really believe that? That seems a very optimistic assumption," said Chris Edwards at the Cato Institute in Washington.

The improvement over February's forecast was due largely to spending cuts imposed under a deal struck last month by Obama and Republicans to raise the U.S. debt ceiling, which will shave $1.45 trillion from the deficit over the next 10 years.

In the latest reading from the economy, U.S. manufacturing grew unexpectedly in August and fewer Americans filed new claims for jobless aid last week.[ID:nN1E7800A8]

The new economic data on Thursday was the latest in a series to suggest the economy remained on a slow-growth path and offered hope it would dodge a recession.

The White House review predicted unemployment to average 9.1 percent this year and 9.0 percent in 2012. The jobless rate was 9.1 percent last month and is expected to show no change when the August employment report is released on Friday.

"Despite recent setbacks, the Administration expects the economy to grow at increasing rates in the months and years to come," the White House said. "The potential for a sharp recovery is present," it added, noting abundant capacity in the economy to increase output, including high unemployment.

Congress must find at least $1.2 trillion in deficit reduction measures over the next 10 years. If it fails to act before late December, mandatory spending cuts of $1.2 trillion will be imposed equally on defense and non-defense spending, kicking in from 2013 and running through 2021. (Editing by Ross Colvin and Peter Cooney)