

HAPPENING NOW: Fed chairman Ben Bernanke testifies before Congress about economy

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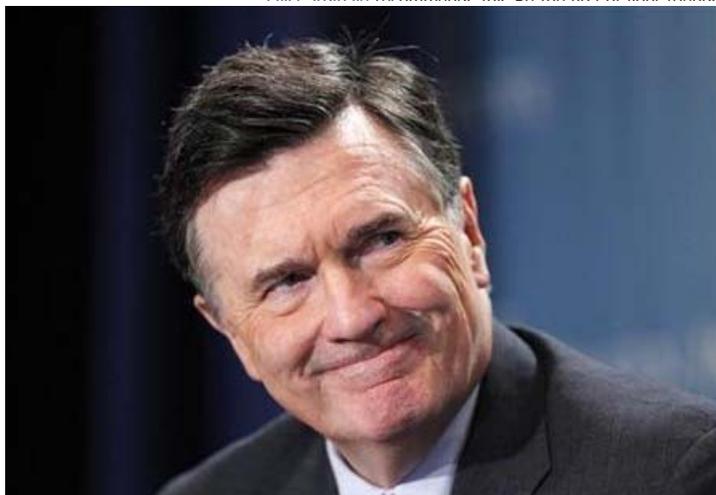
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Lockhart says Fed may ease if economy falters

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By Pedro Nicolaci da Costa

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(Reuters) - The Federal Reserve may need to

economy falters or Europe's crisis triggers a broader financial shock, Atlanta Fed President Dennis Lockhart said on Wednesday.

Lockhart was speaking just days after data for May showed a sharp slowdown in employment growth. Gross domestic product in the first quarter also has been revised down to 1.9 percent from 2.2 percent, raising fears that the expansion might peter out.

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"It is my sense that material risks to the outlook are gathering," Lockhart told business executives at The Broward Workshop.

"Should it become clear that something resembling my baseline scenario of continued, though modest, growth is no longer realistic, further monetary actions to support the recovery will certainly need to be considered," he said.

Lockhart also suggested some type of action might be needed if Europe's banking crisis escalates.

That was a change in tone from his last speech in May, when he appeared more keen to focus on tweaks to the Fed's communications strategy. Indeed, Lockhart told reporters his level of concern had risen since the Fed's April meeting.

His remarks and those of other Fed officials this week suggest a consensus has yet to emerge on the need for further stimulus.

Investors are now increasingly betting the central bank will decide to take some type of additional action at its June 19-20 meeting. The Fed could either extend its current program of selling short-term securities to buy longer-dated ones, a measure known as Operation Twist, or it could embark on a third round of asset purchases.

Fed Chairman Ben Bernanke will testify before Congress on Thursday, and analysts will be listening closely for any hints that more bond buys are in store.

A raft of figures has shown signs of economic weakness around the world, with large emerging economies like China, India and [Brazil](#) also facing significant hurdles. Lockhart said this presents yet another risk to economic prospects.

"A growth slowdown in emerging economies would aggravate the effects of the European slowdown by further limiting the role of exports in the recovery," he said.

On Wednesday the European Central Bank left interest rates steady at 1 percent, despite concerns about a Greek exit from the euro and about Spain's banking troubles. [Greece](#) is approaching a key election on June 17.

In contrast, the Fed not only pushed its benchmark rates to effectively zero at the end of 2008, it also more than tripled its balance sheet in an effort to jump-start growth.

(Editing by [Chizu Nomiyama](#))

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