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★ Atlanta Fed chief predicts modest recovery, risks abound

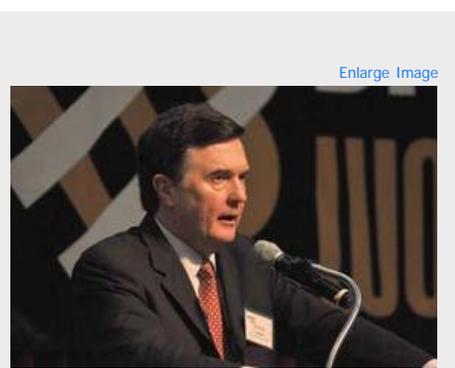
South Florida Business Journal by Brian Bandell, Senior Reporter
Date: Wednesday, June 6, 2012, 11:12am EDT - Last Modified: Wednesday, June 6, 2012, 3:45pm EDT

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Dennis Lockhart, the president and CEO of the [Federal Reserve Bank of Atlanta](#), predicted a modest economic recovery this year amid slow job growth, but a handful of risks abound.

The economic leader addressed members of the Broward Workshop in Fort Lauderdale on Wednesday. He is part of the Federal Open Market Committee (FOMC) meetings where major economic policy is



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Federal Reserve Bank of Atlanta President and CEO Dennis Lockhart

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set.

Subdued income growth, with consumer spending growing faster than income, is holding the recovery back and is likely to limit further spending, Lockhart said. Export growth has been a bright spot, but he cautions that a stronger U.S. dollar could make exports more expensive for foreigner buyers. The decline in government spending has also been a negative factor in the economy this year, Lockhart added.

The pace of the nation's moderate economic recovery is similar to what Florida is experiencing, he said. Progress in Florida has been relatively slow since it started improving in 2009, but Lockhart pointed out some encouraging local trends.

"The economy in South Florida has seen a resurgence in foreign spending, primarily on real estate and tourism," he said. "Our contacts in the real estate sector have noted for some time that international investors, mainly from Canada, Europe and South America, have been active buyers of this area's distressed residential real estate assets.

"On the tourism side, international visitor spending has been supported by rapid growth in South American visitors. Looking ahead, our travel and tourism contacts expect this sector to show solid performance for the remainder of 2012. That said, we also hear anxiety about the impact of a slowdown in global economic activity on bookings this summer and into the future."

When asked why all this positive economic activity in South Florida has not led to major job creation, Lockhart said that companies nationwide appear to still be cautious about hiring. Companies are in the same mode they were in coming out of the recession: to get the most out of their workforce without having to hire. The hiring slowdown in the May jobs report could be associated with a period of catchup for businesses that are now satisfied with the size of their workforce, he added.

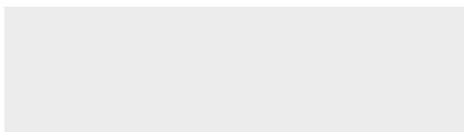
Lockhart said he does not believe the national budget deficit is an immediate hindrance to job creation, but it is a long-term problem.

One of the biggest risks to the economy is the "fiscal cliff" – a trigger on Jan. 1 that would end the Bush-era tax cuts and mandate major federal spending cuts unless Congress takes action. Lockhart cited a [Congressional Budget Office](#) study estimating that this event would cut the federal deficit by at least 4 percent of gross domestic product, which could be large enough to cause a recession in the first half of 2013.

"It's terribly important, starting in the lame duck session, that Congress comes to grips with the fiscal cliff issues," Lockhart said.

A further decline in housing prices poses another risk to the economic recovery, Lockhart said. While housing prices appear to be stabilizing in much of the country, inventory levels are high and could take years to run off, he said.

The possibility of a recession in Europe is another significant threat, and Lockhart said the



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situation has grown more severe since that last FOMC meeting in April. He expects a mild European recession that would slow, but not derail, the U.S. economy, he said. A more severe European recession would hurt U.S. exports, he added.

“The greater concern, in my view, relates to the European financial system, in particular the risk of an event that might trigger a widespread seizing up of global debt markets,” Lockhart said. “Banks have moved to limit their direct exposure to peripheral European sovereign debt, but still maintain exposure to European banks through complex counterparty relationships, including their participation in the credit default swap market.”

A fourth risk to the U.S. economic recovery that Lockhart identified is the apparent slowdown in some emerging economies, such as China, India and Brazil, the latter country being a significant source of investors and visitors for South Florida. However, he noted tha some investors in foreign markets put their money in South Florida during tough times in their countries.

“You are seeing in South Florida, and with the Treasury Bill in some cases, a flight to perceived safety,” Lockhart said. “In South Florida, real estate is attractive to people who have their dollars in another currency. There is some logic to the statement that South Florida benefits from instability elsewhere.”

In other comments by Lockhart, who took questions from the audience and journalists:

- FOMC has the tool to address another downturn in the economy, should one occur.
- While he would not comment on [JPMorgan Chase Bank's](#) \$2 billion trading loss, Lockhart noted that increased capital requirements at large banks can make the system more resilient to such problems.
- Addressing the migration of the baby boomer generation to Medicare and Social Security is a crucial issue for the government, as baby boomers are not likely to remain in the workplace much past retirement age.
- FOMC expects to keep interest rates low through 2014. While some people say that policy is hurting savers, Lockhart said nursing the economy back to health is good for everyone.
- Basel III – an international call for most banks to keep more capital on hand – should not constrain lending in the short term because most banks have excess capital and liquidity.

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