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- OPINION
- YOUR CAREER
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Atlanta Fed chief sees 'risks gathering' to US economic recovery

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SunSentinel
5:52 p.m. EDT, June 6, 2012

The U.S. economic recovery remains "halting and tenuous," with "risks gathering" for a slowdown, the chief of the Atlanta [Federal Reserve Bank](#) told a [Fort Lauderdale](#) group on Wednesday.

Home prices illustrate the fragility. Prices are bottoming out from their dive during the recession but can't rise quickly, with so many properties now for sale or waiting to be sold later, banker Dennis Lockhart said.

Florida suffered a deeper recession than the rest of the country, but has been helped more than other areas by an inflow of foreign spending, especially in real estate and tourism. But foreign spending could wane, as [Europe's](#) financial woes worsen and South American economies cool, the Atlanta banker said.

Lockhart spoke before the board of the Broward Workshop, a non-profit business group that tries to help solve community problems. Some workshop members serve on boards for the regional Fed, including Mike Jackson, chief of Fort Lauderdale's [AutoNation](#), the country's biggest vehicle retailer.

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Here's a breakdown of what Lockhart predicted, speaking for himself and not for the central bank:

Where we're at: The pace of U.S. economic recovery — and Florida's — is "moderate" and likely will remain so. After a strong finish to 2011, growth early this year was "underwhelming," job growth has been "a disappointment" and the economy faces "strong head winds" that can slow future revival.

Drags on the economy: Both U.S. households and banks are trying to trim debt, and that puts a drag on economic growth. Governments, especially local and state, are cutting budgets, also slowing growth. Many businesses are uncertain about the future and cautious about hiring. That leaves the outlook for recovery "slow and drawn out," with the Fed likely to keep interest rates low for the next few years.

Four key risks to recovery: First, if home prices drop, recovery might crimp — but that's unlikely, said Lockhart.

Second, if Congress fails to act, new taxes and deep cuts in federal spending will kick in next year, potentially sending the nation back into recession. But Congress likely will phase in new taxes and spending cuts, so the country won't fall off the "fiscal cliff" and the economy will still grow, he said.

Third, Europe's finances are deteriorating, slowing U.S. exports and hurting banks. U.S. banks are less exposed

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to European risk than they were a few years ago but remain linked. "The global financial system is too integrated, too networked to expect that problems could be isolated to Europe," he said.

Finally, economic growth is slowing in the world's big emerging nations including China and Brazil. That could further limit U.S. export growth and slow foreign tourism and investment in Florida, he said.

Some Broward Workshop members called Lockhart's comments "somber" and others "realistic."

One member asked Lockhart how long U.S. seniors will receive such low interest rates on bonds and other safe investments that many retirees must eat into their savings to survive.

The Fed executive saw no short-term relief: "The [low interest rate] policy is to nurse the economy back to a more robust state of economic health," said Lockhart, "and the alternative is worse for everyone."

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