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## 'Hopeful signs' Atlanta Fed president predicts modest improvements in economy

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by Karen Brune Mathis, Managing Editor

Top of mind for many businesses and consumers is the risk of a double-dip recession.

The president and CEO of the Federal Reserve Bank of Atlanta said last week he doesn't see one.

"I don't believe it's going to happen," said Dennis Lockhart at the Global Business Luncheon Tuesday at The River Club.

"I don't believe we're going to see a double-dip recession," he said.

Lockhart talked about "The Economic Situation and Financial Markets" with members of the World Affairs Council of Jacksonville and The Gate Governors Club.

After his presentation, he took questions from the members, including the query about chances for a double-dip following the December 2007-June 2009 recession.

After he met with the group members, he met for a brief news conference with several reporters.

Among some of the questions and answers:

How is real estate in Florida and the Southeast? It's been one of the foundations of the economy, and as housing has collapsed in Florida, so has the economy. Do you have any insights into what you predict might be happening with housing and real estate?

I think there are hopeful signs that the housing market nationally is seeing the development of a bottom. The Case-Shiller Home Price numbers just came out. They indicate, seasonally adjusted, a very small drop in home value, and non-seasonally adjusted, a number of markets saw increases in home values. I believe the last month's sales numbers picked up a bit. The foreclosure and short-sale problem continues. And this has gone on a long time. One hopes that this is sort of a bottom forming, and that's going to obviously express itself differently in each market, because real estate being so local an industry, but I think there are some positive signs, and hope it's not a false positive.

You seemed relatively concerned by the recent readings of rising inflation that we've had, but at the same time you expect it to taper off. Is there any worry that the kind of cratering of markets and the fear of a global recession could lead to renewed deflation fears, or is that nowhere near the radar at this point?

At the moment, I don't see any indication of deflationary conditions developing. And as I said in the speech, I actually expect and hope for disinflationary pressures to develop, slowing the pace of inflation. What happened last fall, now about a year ago, was that we actually saw indications, and some measure of inflation expectations, of those expectations dropping pretty strongly and that certainly influenced my thinking as to what the real risks were at the time. And nothing really that is comparable to that is occurring at the moment.

Do you think, given the slowness of the recovery, does the U.S. need a large fiscal stimulus at this point?

I'm not going to comment on whether a new fiscal stimulus was required. I will be responsive to your question in this way: I think it's widely perceived that we need a credible long-term plan to deal with our fiscal challenges. If that plan were in place, and the ability to execute it were widely believed, I think there is a strong argument for not initiating the cuts immediately, and letting the recovery continue to develop before the effect of fiscal retrenchment takes place.

The Federal Reserve System is the nation's central bank and is based in Washington, D.C. It has 12 regional banks, including in Atlanta.

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The Fed makes monetary policies to stabilize prices and moderate long-term interest rates. It also regulates banks for safety and soundness.

In his presentation to the World Affairs Council and Gate Governors Club, Lockhart said the Federal Reserve's Federal Open Market Committee met to undertake a "maturity extension program," called "Operation Twist" by some commentators. Its intent is to put downward pressure on long-term interest rates.

He shared that his comments were his personal views and might not be shared by his colleagues on the Federal Open Market Committee or in the Federal Reserve System.

About 165 people attended the event.

Among his comments:

- Overall, the economy is growing slowly and his outlook is for modest improvement through the remainder of the year and into 2012.
- His forecast is for Gross Domestic Product growth of 1-2 percent this year and moving up to 2-3 percent next year.
- While many households face serious financial problems, overall the financial health of households has been improving the past two years.
- His outlook for modest improvement rests on an assumption that the economy will not be hit by another major shock such as another large oil price spike or severe financial instability caused by a significant worsening of conditions in Europe.
- The European debt crisis looms, in his opinion, as the biggest threat at the moment.
- The weak pace of growth in output since the end of the recession has translated into only modest job growth, and modest gains in the private sector have been partially offset by ongoing losses in the public sector.
- The unemployment rate of 9.1 percent would be higher if it weren't for the fact that some people are dropping out of the labor market completely.
- Recent inflation numbers are higher than he desired or expected. The August Consumer Price Index showed prices rising at an annualized rate of 4.6 percent, a rate that he called unacceptable if it continued for a long period of time.
- He expects the rate of inflation to fall over the next few months.

Lockhart said the Federal Open Market Committee decided to undertake the "maturity extension program" in an attempt to ease financial conditions.

He said that meant lower interest rates for consumer and private-sector borrowing.

"For the typical American consumer and business, it means borrowing should be cheaper," he said.

"It means purchases that you might finance and pay for in monthly installments should be more affordable. It means, for some people, refinancing your mortgage may make a lot of sense and at the moment the money saved by lowering your mortgage payments can go into your pocket for whatever use," he said.

"And for a business, it means that investments, for example, in new equipment, may be a little more financially justifiable."

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