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Fed rate action commentary from Swiss Re US senior economist

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After today's 25 basis point Federal Reserve increase in the target fed funds rate to 2.75 percent, Swiss Re's US senior economist David Laster commented, "this marks the Fed's seventh consecutive 25-point rate hike. The real fed funds rate is now positive, but quite low according to most inflation measures. We therefore expect the Open Market Committee to continue raising rates in 25 basis point increments at its next five meetings.

"In charting its course this year the Fed will closely monitor energy prices," Laster said. "High fuel prices act like a tax on consumers and producers alike, slowing economic growth. For now, however, February's robust job report confirms that US economic growth remains on track, allowing the Fed to keep raising rates. The ten-year Treasury yield has risen 50 basis points in the past six weeks to about 4.5 percent, in response to Fed tightenings, solid growth, inflation worries and budget deficits. We expect rates to end the year in the 4.7 percent-to-5.2 percent range. "Unlike the Fed, other central banks will remain on hold for several months," added Laster. "Due largely to a strong Euro, Euroland growth slowed more than expected last quarter. Although growth will pick up this year, the European Central Bank will not raise rates in coming months. Since Japan is only starting to revive from a slow patch of the second half of 2004, the Bank of Japan is unlikely to raise rates until the rebound is more firmly established. The UK economy, while growing solidly, continues to enjoy inflation below the Bank of England's (BoE) 2 percent target. This will allow the BoE to leave its base rate unchanged this year. Additionally, slowing growth in Canada will prevent the Bank of Canada from raising rates until the third quarter."

Notes to editors

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