

Swiss Re Economic Risk Survey: risk of deflation is low, but uncertainties about global economic recovery remain

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Swiss Re's fourth survey of economists' opinions 'The Economic Risk Survey', conducted in November, indicates that the risk of global deflation is low. The survey did however find, that the risk to stock markets in both Europe and the US has increased substantially, when compared to the previous survey last April. The economists surveyed expressed increased uncertainty about the global economic recovery, geopolitical tensions and the widespread uneasiness about structural rigidity in Europe.

The survey's participants, 36 economists from Europe and the United States, consider the risk of deflation to be very small. Respondents rate the risk of falling prices over the next five years to be 4% in the US (2% in April) and 2% for Europe (3% in April). In contrast, the likelihood of a period of very low inflation is substantial and has increased over the last six months. Inflation below 1% in the short term has a probability of 18% for the US and 12% for Europe. In last November's survey estimates were around 9% for both the US and Europe.

The risk of a further decline in stock markets has increased in both the US and Europe over the last six months. The estimated probability of a stock market crash in 2003 - defined as a 25% decline in a major stock market index - is 16% for the US and 17% for the Europe. The likelihood of stock prices to declining in 2003 and not recovering to 2002 year-end levels until after 2012, has increased by about a percentage point to between 4% and 5% for both regions.

The US recovery has shown some signs of weakness over the past few months, raising concern that the recovery in both the US and globally, could be derailed. Reflecting this, the 36 survey respondents give a probability of 14% for US growth being less than 1% during 2003 (up from 9% in April), while the probability of this low growth rate in Europe is 25% (up from 20% in April).

Europe's economy has a 22% probability (up from 16% in April) of ten years of 1.5% growth or less according to the respondents. This is higher than the US which is given only a 7% probability (up from 5%) of such depressed growth. Of course, the US has a higher rate of labour force growth, which explains part of the difference.

Swiss Re will host its annual European outlook media event: Insurance Review 2002 and Outlook 2003, in London on 11 December.

Notes for editors:

Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. For 2001, Swiss Re reported a net loss of CHF 165 million, largely due to the 11 September event. Gross premiums in 2001 were CHF 28.5 billion. At the end of June 2002, Swiss Re's shareholders' equity amounted to CHF 18.3 billion and the total balance sheet stood at CHF 168 billion. Swiss Re is rated "AA+" by Standard & Poor's, "Aa1" by Moody's and "A++" by A.M. Best.

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