

Fed rate action commentary from Swiss Re's chief US economist

24 Sep 2002

Following today's announcement that the Federal Reserve Board would hold the target federal funds rate at 1.75 percent, Swiss Re's chief US economist, Kurt Karl said, "With the economy growing at a moderate pace and inflation under control, the Fed believes no extra stimulus is needed. The Fed also maintained its policy stance of "biased-towards-easing" in case markets become disorderly or economic growth slows dramatically. If the recovery stays on track, the Fed will change its policy stance to "neutral" later this year to prepare the market for rate hikes early next year.

"Though the markets remain skeptical of the economic recovery, current quarter growth is shaping up to be close to 4 percent, so the US economy is performing well," noted Karl. "Consumer spending is relatively robust, so the recent lull in manufacturing production will be temporary. The housing and auto markets are both remarkably robust. Employment growth will remain close to zero for several more months as companies seek to improve their balance sheets. Business investment is improving, though at a very modest pace, given the current environment of intense scrutiny of accounting practices.

"Due to the lack of confidence in the US economy and the fragile state of the world economy, the major central banks will also be on hold for the time being," Karl added. "The next tightening will most likely come from the Bank of Canada because the Canadian economy is growing rapidly. The European Central Bank may cut rates if the major countries do not show signs of greater improvement soon and the euro strengthens and inflation eases."

Advisory:

Kurt Karl is available for interviews with reporters and editors to elaborate on his comments:

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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 "AAA" by Standard & Poor's, "Aaa" by Moody's and "A++" by A.M. Best.

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