

Fed rate action commentary from Swiss Re US economist

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Following today's announcement that the Federal Reserve Board would hold the target federal funds rate at 1.75 percent, Swiss Re senior economist David Laster noted, "By stating that upside and downside economic risks are evenly balanced, the Fed is cautiously preparing the market for rate hikes, most likely in June. This marks an end to the Fed's bias towards easing, which has been in place since the December 2000 FOMC meeting and represents a formal recognition by the Fed that recent economic indicators have been very positive and the outlook has brightened. This is about as close as Chairman Alan Greenspan gets to a victory dance in the end zone.

"The outlook for the US economy has dramatically improved in recent weeks," Laster added. "We now expect growth at an annual pace of two percent to three percent in the first half of the year, and three percent to four percent in the second half. The rapid improvement in the outlook is due to two factors. First, US consumers have continued to spend their income, even in the face of an uncertain job picture. Second, businesses have finally trimmed inventories to levels where they must boost production to meet rising demand. The icing on the cake has been the labor market, which after several months of deterioration is finally showing signs of stabilizing.

"The global economy also appears to be reviving," observed Laster. "In view of the increasing signs of economic recovery, further European Central Bank rate cuts are now very unlikely. The Bank of England and the Bank of Canada will also stand pat. We project a global economic recovery in the second half of 2002."

Advisory:

David Laster is available for interviews with reporters and editors to elaborate on his comments:

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