

Fed rate action commentary from Swiss Re US chief economist

13 DECEMBER 2005, NEW YORK

After today's 25 basis point Federal Reserve increase in the target fed funds rate to 4.25 percent, Swiss Re's US chief economist Kurt Karl commented, "as expected the Fed raised rates again. Despite high oil and natural gas prices, economic activity has been solid. More importantly for the Fed, however, inflation concerns remain elevated, due to high energy prices and the impact of Katrina, Rita and Wilma on building material prices. Hence, the Fed will continue to raise rates."

"The economy has weathered the storm of post-Katrina uncertainty and is on track for at least trend growth next year. Business confidence was largely unaffected and consumers, despite an initial drop in confidence, seem to be spending at a reasonable pace — holiday spending, though not robust, is doing well. All this has been aided by a drop in the price of gasoline from \$3.04 per gallon on September 2 to about \$2.10 recently, lower than the average price in August of \$2.51. The Fed is now expected to raise the federal funds rate to 5.0% by the middle of next year. The yield on the 10-year Treasury note will climb to 5.3% or so by end-2006, pushed up by the Fed actions," Karl said. "With unemployment falling and price pressures continuing, the Fed needs to raise rates to cool off the economy."

"In Euroland, the European Central Bank (ECB) is expected to continue raising rates next year to 2.75%, or so, as the economy gains strength. The Bank of England, on the other hand, is on hold for now as it attempts to balance the risk of inflation against a weakening economy. In Japan, real GDP growth, at 2%, is close to trend and inflation appears likely to return in 2006. Hence, the Bank of Japan is expected to begin tightening next year, though only modestly. Canada is still expected to continue raising rates, since its economy is doing well and inflation could increase if rates are not raised," added Karl.

About Swiss Re

Swiss Re is one of the world's leading reinsurers and the world's largest life and health reinsurer. The company operates through more than 70 offices in over 30 countries. Swiss Re has been in the reinsurance business since its foundation in Zurich, Switzerland, in 1863. Swiss Re offers a wide variety of products to manage capital and risk. Traditional reinsurance products, including a broad range of property and casualty as well as life and health covers and related services, are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. Swiss Re is rated "AA" by Standard, Poor's, "Aa2" by Moody's and "A+" by A.M. Best.

ANY QUESTIONS?

MEDIA RELATIONS

ZURICH: +41 43 285 7171
NEW YORK: +1 914 828 6511
SINGAPORE: +65 6232 3459

OTHER SWISS RE CONTACTS

SWITCHBOARD: +41 43 285 2121
INVESTOR RELATIONS: +41 43 285 4444
SHARE REGISTER +41 43 285 6810

[Send an e-mail](#)

Our Leadership

[News releases](#)

[Media events](#)

[Contact us](#)

[Electronic press kit](#)

[News archive](#)

SUBSCRIPTION SERVICES

[Subscribe to News releases](#)



Contact



Subscribe



Follow