Media information

Swiss Re

# Fed rate action commentary from Swiss Re chief US economist


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**New York, 3 November 2010 – After today's decision by the Federal Reserve to maintain the target fed funds rate at zero to 25 basis points, Swiss Re's chief US Economist, Kurt Karl, commented, "Growth is moderate and inflation is very low, so the Fed is now expected to be on hold through all of next year. The quantitative easing program signals a strong commitment to the Fed's mandate of low unemployment."**

"Though economic indicators remain mixed, there is only a small risk of another recession – still estimated to be about 10% for both the US and Europe. Nevertheless, the Fed has now begun a new program of quantitative easing to keep long-term interest rates low. So far, low interest rates have not been able to revive the housing sector, but companies are borrowing and bank profits are up. Real GDP growth is expected to be 2.7% this year, and only a bit stronger, 2.8%, next year as employment increases and housing starts finally begin to increase. All-items inflation is expected to be close to 1.5% this year and next, while core inflation will be closer to 1%. The yield on the 10-year Treasury note will be mostly rising in 2011, reaching about 3.8% by year-end. With low inflation and modest growth, the Fed is expected to keep the fed funds rate at 0.0% to 0.25% until the first quarter of 2012," Karl said.

"Both the Euro area and the UK are expected to grow by 1.5% to 2.0% this year and next. China's outlook remains robust, but growth is expected to slow from about 10% this year to 9% and 8% over the next two years. Japan's growth will slow to about 1.5% next year from 2.5% this year. Inflation is only an issue in the UK currently, but it is expected to decline to close to 2% by 2012 as special factors, such as VAT increases, disappear. The European central banks are expected to move earlier than the Fed, raising rates slowly and cautiously beginning in the third quarter of next year. This will hold down yields on 10-year government bonds as well. The low interest rates in developed economies will continue to aggravate exchange rate tensions with the emerging markets," added Karl.

## Notes to editors

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