

Swiss Re survey reveals likelihood of low-probability, high-risk economic scenarios

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An international survey, conducted by Swiss Re in February and March, has found that the US is more vulnerable than Europe to recession this year. Over a ten-year horizon, however, Europe's economy is more at risk for sluggish growth than is America's:

- The 33 economists surveyed, from leading financial institutions, said that there is a 28% probability that real US Gross Domestic Product (GDP) growth this year will be less than 1% — far higher than the 8% probability they assigned to Europe.
- Over a ten-year horizon, this picture is reversed. The probability of a decade of sluggish real growth (less than 1.5% per year) is 16% for Europe and 7% for the US.

These findings are from a recently completed survey conducted by Swiss Re Economic Research & Consulting. The survey was designed to estimate the likelihood of low-probability, high-risk economic conditions such as prolonged periods of declining output or deflation. As a leading authority on the management of capital and risk, Swiss Re is particularly interested in the likelihood of a variety of short- and long-term economic scenarios and their potential impacts on the global business environment.

Other key findings of the survey include:

- The low inflation that Japan has recently experienced seems unlikely to spread. The probability of less-than-1% inflation this year is 8% for the US and 6% for Europe. In considering a more severe scenario, the respondents concluded the risk of deflation over the next five years is about 2.5% in both regions.
- Stock prices are more vulnerable in the US than in Europe. The probability of a 25% decline this year is 26% for the Standard & Poor's 500 index, but just 17% for the Euro Stoxx 50.
- A stock market decline of this magnitude would more likely slow economic growth in the US than in Europe. In the event that the S&P 500 were to decline by 25% or more next week — and remain down for the rest of the year — the economists assign a 51% probability to real US GDP growth of under 1%. For Europe, the probability of slow growth after a similar shock to the Euro Stoxx 50 is 22%.
- Among those surveyed, the probability of high average inflation (more than 4.5%) over the next three years is estimated to be 7% in the US and 5% in Europe.
- Respondents indicated that the likelihood of stock prices declining in 2001 and not recovering to 2000 levels until after 2010 is less than 4% for both Europe and the US.
- The respondents did not think any downturn would be prolonged. The risk of two years of negative growth is 7% for the US and 6% for Europe. The risk of five years of negative growth is below 2% for both regions.

Contact

Economic Research & Consulting

Kurt Karl, New York, tel. +1 212 317 5587

Björn Schmolck, Zurich, tel. +41 43 285 2297

Michael McNamara, New York (media inquiries), tel. +1 212 317 5663

E-mail: sigma

Zurich: Silvia Horlacher, tel. +41 43 285 2551, fax +41 43 285 4749

Hong Kong: Eunice Kwok, tel. +852 2582 5691, fax +852 2511 6603

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