

Swiss Re



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FOR IMMEDIATE RELEASE

Fed rate action commentary by Swiss Re chief US economist

NEW YORK, April 29, 2009 – After today’s decision by the Federal Reserve (the Fed) to maintain the target Fed funds rate at zero to 25 basis points, Swiss Re’s chief US Economist, Kurt Karl commented: “As expected, the Fed will remain at this target until economic conditions allow for an increase in rates which we currently forecast for the middle of next year. Quantitative easing – increasing the supply of money, purchasing Treasury notes – will also continue. The US will have deflation this year compared to last year, since energy prices are so much lower. Inflation is likely to be very low for the next few years, despite the monetary growth, due to large excess of labor and productive capacity.”

“The global economy is in recession and this will last through the end of 2009, perhaps longer. The US economy is very likely to lead the world out of recession, via consumer spending initially, followed by a modest housing sector recovery. The US recovery is now forecast for the fourth quarter of 2009, though there is great uncertainty in regard to the timing. Given the monetary and fiscal stimulus in the pipeline, the rebound could be very strong in 2010 (15% probability). On the other hand, the crisis could prove to be more intractable than currently anticipated and last through 2010, with a second year of negative global growth (25% probability). Lower oil prices will provide US consumers with an additional USD 160 bn of spending power this year, while tax cuts will provide another USD 190 bn through end-2010. Mortgage rates are low, housing prices are falling, and after-tax income growth is still marginally positive year-over-year, making housing very affordable and this should boost that sector in the next six months,” Karl said.

“The recessions in UK and Japan will last through year-end, but probably a bit longer in the Eurozone. Monetary policy, in the form of rate cuts is nearly over, with only one more cut expected by the European Central Bank (ECB) of 25 basis points to 1.0%. Quantitative easing has been implemented in the UK and Japan, while the ECB is studying its options. The quantitative easing and fiscal stimulus in Europe and Japan will be less aggressive than in the US, but supportive of a recovery nonetheless. The Bank of Japan will also probably ease again slightly, though this is largely symbolic given the low level of rates already in place. Yields on 10-year government bonds are likely to remain in a trading range near current levels for most of 2009. The US dollar exchange rate is projected to strengthen against the yen, but weaken modestly against the euro and pound. The Chinese are expected to maintain a relatively fixed exchange rate to the dollar during the course of this year,” added Karl.

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