Swiss Re

Improving growth prospects should lift long-term rates by year-end, predicts Swiss Re Chief Economist, Kurt Karl

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New York, 13 September 2012 – 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 Economist, Kurt Karl, commented: "The US economy continues to grow at a modest pace with housing activity supporting growth."

Karl added: "As growth prospects improve, long-term interest rates should rise despite operation Twist. The uncertainty from the Euro debt crisis has been alleviated somewhat recently, but is unlikely to disappear any time soon. The potential for the US being subjected to a "fiscal cliff," with large tax increases and sharp spending cuts, is also a dampener for growth. Nevertheless, consumers continue to buy vehicles and homes, despite low levels of confidence. The broad-based increase in home prices implies a sustainable housing recovery and the age of fleet vehicles points to further increase in car sales. Our outlook on growth remains unchanged with real GDP growth of 2.2% this year, strengthening to 2.7% in 2013. Yields on the 10-year Treasury note are projected to rise modestly to 2.0% by end-2012 and to 2.6% by end-2013."

He continued: "Weak economic indicators in Europe are elevating the downside risk to our Eurozone forecast of -0.3% this and 0.6% next year. However, the European Central Bank's Outright Monetary Transactions (OMT) program could alleviate European stress quickly, provided Spain and Italy sign Memorandums of Understanding on needed structural and fiscal reforms. Japan is still growing as it rebuilds after last year's earthquake/tsunami. Real GDP growth is expected to be 2.0% this year and 1.6% next year. China has slowed, but has begun implementing fiscal and monetary policies that will boost growth to 8% this year and next. Many other countries have also initiated expansionary monetary policies, which bodes well for growth next year. The Bank of England, for example, continues to provide Quantitative Easing, while Brazil and India reduce interest rates."

Notes to editors

Swiss Re

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