Media information

Fed rate action commentary from Swiss Re chief US economist

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New York, 10 August 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, "Since the Fed last met, markets have improved and the economy has continued to grow at a moderate pace. Inflation is flat-to-declining, so the Fed will be on hold through this year and into next year."

"Though the economy continues to expand, consumers' confidence is weak and housing activity is soft. Business investment has strengthened however and exports are robust. Real GDP growth is very likely to be 3 to 3.5% this year and between 3% to 4% next year. The yield on the 10-year Treasury note is still projected to end the year near 3.7%. The key global downside risk comes from potential European policy developments, such as a disruptive sovereign default or excessive fiscal tightening. The risk of a US recession – from, for example, a stalling of employment growth or a disruption in Europe that renews the global banking crisis – is only about 10%," Karl said.

"The risk of a major market disruption in Europe appears to be abating. The German economy is doing well and Greece and Spain are putting their fiscal houses in order, albeit at a slow pace. The bank stress tests were mostly a non-event, but at least volatility did not increase and they implied that banks are not in need of massive amounts of capital. Hence, real GDP growth in the Euro area is expected to be at least 1.1%, while the UK grows at 1.6%. Next year should be even better for both of them. Government bond yields are still expected to rise by year-end to 3.3% in Germany and 4.0% in the UK. The UK is expected to lead on monetary policy tightening early next year, but this will be delayed if economic growth weakens. China continues to grow rapidly, with 10.3% y-o-y GDP growth in the second quarter, so will have about 10% growth for the full year. Japan is likely to have about 2.0% growth this year and 1.4% next year," added Karl.

Notes to editors

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