Swiss Re

US housing recovery continues to strengthen, says Swiss Re Chief Economist Kurt Karl

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New York, 12 December 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 that the only thing that stands between a moderate US growth next year is a political risk – the fiscal cliff.

"With a reasonably strong housing recovery underway and rising consumer confidence, real GDP growth in 2013 could easily reach 2.5%, our baseline outlook. However, a failure to reach a budget agreement could push the US over the fiscal cliff and into recession."

He continued: "Superstorm Sandy caused widespread business interruptions in the Northeast and a decline in consumer spending, but will likely have only a slightly negative impact on 4Q 2012 growth as reconstruction work gains speed. Housing activity continues to strengthen and consumer confidence improved further in November. However, significant downside risks remain due to uncertainty from the pending fiscal cliff and global slowdown. In the baseline scenario, real GDP growth is expected to be 2.5% in 2013 and 3.3% in 2014. The yield on the 10-year Treasury note is projected to rise to 2.6% by end-2013 and to 3.0% by end-2014."

Karl further added: "In Europe, the Euro area debt crisis has shifted from acute to chronic mode, increasing the risk that the recent decline in peripheral bond yields will lead to complacency, delaying the banking union project and structural reforms at the national level. Growth is expected to be near zero again next year. The news is better in China with the macro data improving and the probability of a hard landing in China has dropped from 25% to 20%. Japan is also expected to continue growing, albeit at only a weak 1.2%. Global monetary policy will remain accommodative. Though the Fed, ECB and the BoE have left their policy rates unchanged for now we cannot rule out another ECB rate cut early next year, and the Fed is expected to continue QE as long as growth and inflation are near 2%."

Notes to editors

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