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## Fed rate action commentary from Swiss Re chief US economist

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**New York, 26 January 2011 – 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: “Though economic activity has picked up, the unemployment rate will be elevated throughout 2011, so the Fed will be on hold this year and re-evaluate its near-zero interest rate policy early next year.**

“The US economic expansion is currently gaining strength. Growth is forecast to be over 3% this year, stronger than last year, and to continue to accelerate in 2012 to 3.5%. Job momentum, low interest rates, some additional fiscal stimulus, the weak dollar and an improving housing market will all bolster growth,” said Karl.

“Nevertheless, the pace of the recovery will continue to feel anemic. Job growth will quicken, but only enough to bring the unemployment rate down to about 9% by end-2011. Inflation will remain subdued and deflation is unlikely, given the extraordinary measures taken by the Federal Reserve Board. All items inflation will be less than 2% this year and next, while core inflation will stay close to 1%. Under these conditions, the Fed will be on hold through 2011 and the yield on the 10-year Treasury note will only rise slightly, to 3.8% or so, by year-end as the expansion gathers strength.”

Karl added: “Confidence in the global expansion continues to strengthen. In Europe, Germany continues to outperform, France is doing well, Italy is muddling along and growth is solid in the UK. Spain is still a worry, however, since economic growth is expected to be slow this year due to fiscal tightening. Euroland GDP will be 1.7% this year, but rise to 1.9% in 2012. In the UK, growth will be 2.0% and 2.2% this year and next. Inflation is tame in the developed economies, with the exception of the UK, but is accelerating in the emerging markets, including China which is now expected to have inflation of about 4% this year – not a major problem, but higher than previously expected. The ECB and BoE will begin tightening very gradually in the third quarter of this year. Yields on 10-year government bonds are expected to continue rising due to the acceleration of growth. Yields will rise to 3.7% in Germany, 4.2% in the UK and 1.7% in Japan by end-2011.”

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### **Notes to editors**

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