# Fed rate action commentary from Swiss Re US senior economist

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After today's 25 basis point Federal Reserve increase in the target fed funds rate to 4.00 percent, Swiss Re's US senior economist Arun Raha commented, "this rate hike was expected – economic growth has been strong despite the disruption from hurricanes Katrina and Rita. Inflationary pressures, albeit benign, remain a concern. Further increases in interest rates are likely in December and January, taking the fed funds rate to 4.5 percent.

"There is a clear disconnect between popular perception and economic reality – consumer sentiment is soft, but both consumer and business spending in the third quarter was strong. Spending on reconstruction in the hurricane devastated areas will provide a further boost to demand. Higher energy costs have yet to pass through to other prices – so nascent inflationary pressures remain in the pipeline – and, the Fed can be expected to continue raising rates," Raha said. "The Fed needs to raise rates to dampen demand, preventing an increase in inflation.' "Further rate cuts by the Bank of England are unlikely due to increased inflationary pressures from global markets. In Euroland, the European Central Bank (ECB) is expected to raise rates next year, as the economy gains strength. In Japan, a real GDP growth rate of around 2% appears sustainable this year and the next, but no rate increases are expected until inflation picks up – perhaps in late 2006. Canada is expected to continue raising rates, but at a slower pace than in the US. Its economy is healthy and rates are still very low," added Raha.

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**ANY QUESTIONS?**

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