

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

6 Nov 2002

Following today's announcement that the Federal Reserve Board would lower the target federal funds rate to 1.25 percent from 1.75 percent, Swiss Re's chief US economist, Kurt Karl said, "With this move, the Fed is attempting to bolster the economy and confidence - the Fed stands ready to support economic growth, now that the recovery is faltering. This rate cut provides assurance that the Fed will do everything possible to sustain the recovery. Businesses and consumers can look forward to next year with greater confidence.

"Further rate cuts will follow if economic conditions continue to deteriorate," said Karl. "However, this is not expected. Though consumer spending has slowed, housing sales - stimulated by very low interest rates - remain at very high levels. A consumer who is unafraid of buying a new home is not a consumer who will lead the US economy into recession. The inventory and orders data, given sales volumes, imply that production will again be increasing by the end of this quarter. Business investment advanced at a healthy 6.5 percent annual pace in the third quarter - orders for capital equipment still imply a further advance this quarter. Income growth, supplemented by lower mortgage payments from a heavy bout of refinancing, is sufficient to sustain moderate consumer spending. We have hit a lull in the recovery not too dissimilar from the last recession, when consumer confidence fell then rose several months later. A half-point cut will not ignite growth directly, but will boost business and consumer confidence.

"Given the slowdown in the US and the fragile state of the European economy, the European Central Bank is likely to be cutting rates also," added Karl. "The next cut will most likely come soon and be at least 25 basis points, with further rate reductions to follow if economic conditions dictate. The ECB is much more likely to continue to cut rates than the US Fed - the European economy is much weaker than the US economy. The Bank of Canada, on the other hand, will most likely be on hold - the recovery in Canada is on track and much more robust than in the US."

### **Advisory:**

Kurt Karl is available for interviews with reporters and editors to elaborate on his comments:  
Kurt Karl, Head of Economic Research & Consulting, New York, Swiss Re  
212-317-5564 New York, USA

Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. For 2001, Swiss Re reported a net loss of CHF 165 million, largely due to the 11 September event. Gross premiums in 2001 were CHF 28.5 billion. At the end of June 2002, Swiss Re's shareholders' equity amounted to CHF 18.3 billion and the total balance sheet stood at CHF 168 billion. Swiss Re is rated "AA+" by Standard & Poor's, "Aaa" by Moody's and "A++" by A.M. Best.

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