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

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**New York, 14 December 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, “The likelihood of stronger growth and higher inflation has increased somewhat along with the probability of further fiscal stimulus. Nevertheless, the Fed is intent on stimulating economic activity sufficiently to lower the unemployment rate, so it will remain on hold through all of 2011.”**

“Downside risks are rising in Europe a bit because of the sovereign debt turmoil, even though the underlying data imply solid growth. In the US, risks of a downturn are declining with further quantitative easing and a fiscal stimulus proposal that is expected to pass largely intact. Real GDP growth is expected to be 2.7% this year and a bit stronger, 2.8%, next year as employment increases and housing starts finally begin to rise. All-items inflation is expected to be close to 1.5% this year and next, while core inflation will be closer to 1%. The yield on the 10-year Treasury note will be mostly rising in 2011, reaching about 3.8% by year-end,” Karl said.

“Many countries in Europe will have stronger growth over the next couple of years. This is based on the momentum of the recovery and the assumption in our forecast that the sovereign debt turmoil has settled within about a year. Euroland GDP will be 1.7% this year and next, but rise to 1.9% in 2012. In the UK, real GDP growth is projected to be 1.8%, 2.0% and 2.2% in 2010, 2011 and 2012. Inflation is tame in the developed economies, but the carry trade – borrowing in the US and Europe to invest in emerging markets – is increasing inflationary pressures in many countries. The European Central Bank and the Bank of England are expected to begin raising rates gradually beginning in the third quarter of next year. Yields will rise to 3.7% in Germany, 4.2% in the UK. Growth in Japan will slow to 1.3% next year from about 3.5% this year. In China, growth is projected to slow from about 10% this year to 8% by 2012. Inflation is expected to be contained in China by monetary tightening, which will include an further appreciation of the renminbi of about 7% by end-2012,” added Karl.

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### **Notes to editors**

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