Contact
Subscribe
Follow

Fed rate action commentary from Swiss Re US senior economist

03 MAY 2005, NEW YORK

Following today's 25 basis point Federal Reserve increase in the target fed funds rate to 3.0 percent, Swiss Re's US senior economist David Laster commented, "This afternoon's widely anticipated 25-point rate hike reflects the Fed's ongoing concern about CPI inflation, which has ticked up from 1.7 percent to 3.1 percent in the past 12 months. Because the Fed's chief responsibility is to assure price stability, defined as the absence of appreciable overall inflation, we expect the Open Market Committee to continue raising rates in 25 basis point increments at its next four meetings.

"With $50 per barrel oil, slowing growth and waning confidence, the Fed must walk a delicate line in raising rates," Laster said. "More rapid rake hikes would help contain inflation but would undercut economic growth. Failing to raise rates further could create an inflationary spiral. Any major surprise – in either direction - would spook financial markets. In its efforts to fight inflation without choking off growth, we expect the Fed not to raise rates above 4 percent. We estimate that real GDP growth has slowed to 2.0 percent to 2.5 percent this quarter, but will rebound to above 3 percent in the second half of the year.
"Unlike the Fed, other central banks will remain on hold for several months," added Laster. "Due largely to a strong Euro and high oil prices, Euroland growth will stay weak throughout the year. The European Central Bank will therefore not raise rates in coming months. Since Japan is only starting to revive from a slow patch in the second half of 2004, the Bank of Japan is unlikely to raise rates until the rebound is more firmly established. In the UK, high oil prices are boosting inflation, though it remains below the Bank of England's (BoE) 2 percent target. The BoE is expected to leave its base rate unchanged this year, but the likelihood of a rate hike has risen in recent weeks. Additionally, the Bank of Canada will be on hold through the third quarter, allowing the Canadian economy to regain a firm footing."

Notes to editors

Swiss Re is one of the world's leading reinsurers and the world's largest life and health reinsurer. The company operates through more than 70 offices in over 30 countries. Swiss Re has been in the reinsurance business since its foundation in Zurich, Switzerland, in 1863. Through its three business groups Property, Casualty, Life, Health and Financial Services, Swiss Re offers a wide variety of products to manage capital and risk. Traditional reinsurance products, including a broad range of property and casualty as well as life and health covers and related services, are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. Swiss Re is rated "AA" by Standard, Poor's, "Aa2" by Moody's and "A+" by A.M. Best.

ANY QUESTIONS?

MEDIA RELATIONS
ZURICH: +41 43 285 7171
NEW YORK: +1 914 828 6511
SINGAPORE: +65 6232 3459

OTHER SWISS RE CONTACTS
SWITCHBOARD: +41 43 285 2121
INVESTOR RELATIONS: +41 43 285 4444
SHARE REGISTER +41 43 285 6810

Send an e-mail

Our Leadership
News releases
Media events
Contact us
Electronic press kit
News archive

SUBSCRIPTION SERVICES
Subscribe to News releases