Results from Swiss Re's Economic Risk Survey

3 Jun 2002 CET

In April 2002, Swiss Re Economic Research & Consulting conducted its third international Economic Risk Survey. The results of the survey indicate that the US and Europe are likely to grow synchronically in the short term. The risk of higher inflation is currently low in both regions. A major drop in stock prices is considered less likely than six months ago.

The 34 respondents estimate a 64% probability that growth will be between 1% and 3% this year in the US, and 73% probability for Europe. This compares to 43% for the US and 59% for Europe in our last survey, conducted in October/November 2001.

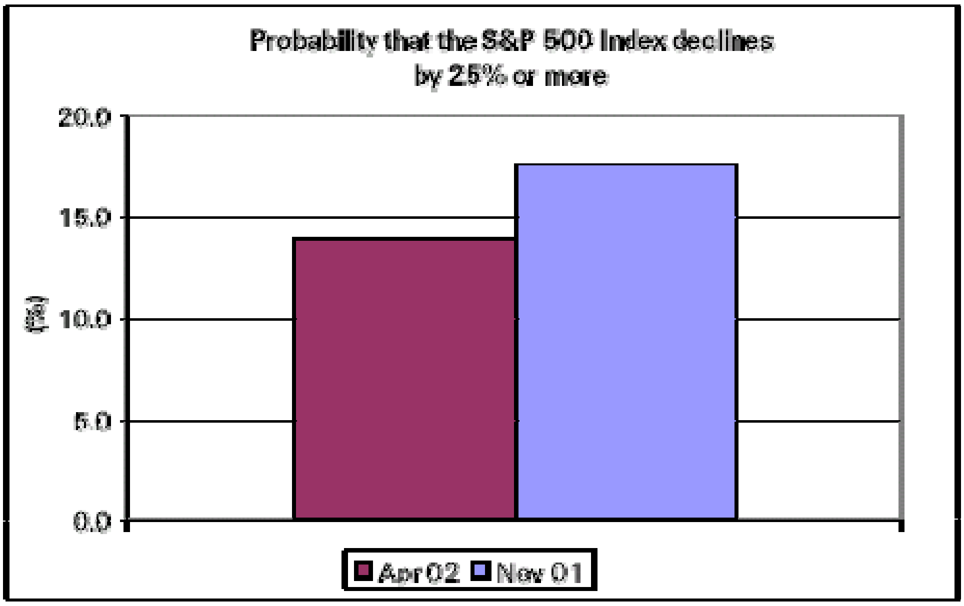
Over a longer horizon, very weak growth is considered more likely in Europe than in the US. Europe's economy is viewed as having a higher probability, 16% (down from 18%), of 10 years of 1.5% growth or less, than the US, with only a 5% probability (down from 12%).

According to the respondents, the risks of higher inflation, in the very short term, are low in both Europe and the US, though they have increased slightly in comparison to the last survey. In the last survey, the probability of inflation over 3.5% in the US was estimated to be 8%, but this increased to 11% in the latest survey. For Europe, inflation over 3.5% is given a 8% chance, compared to 5% previously.

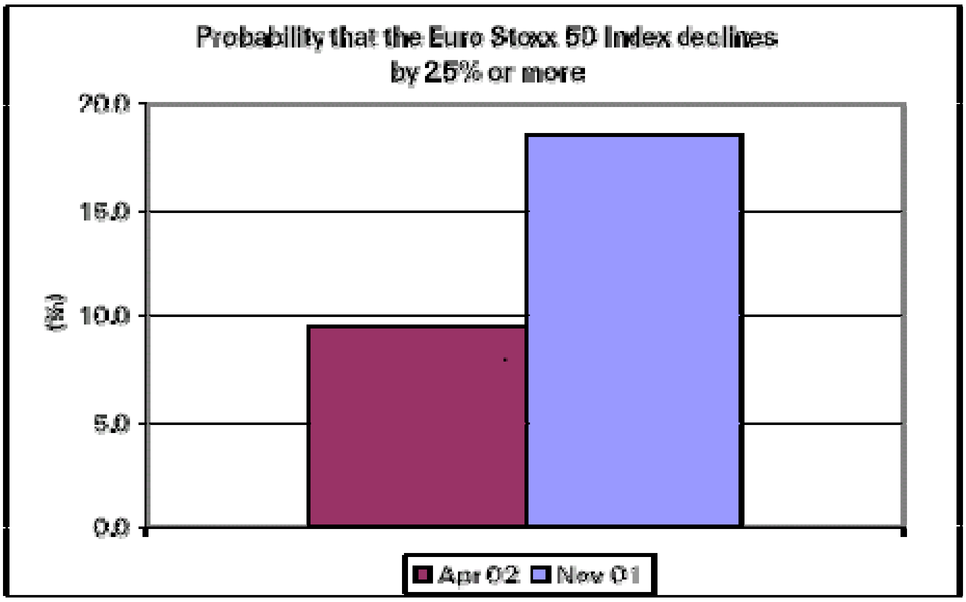
Inflation below 1% is given a chance of 9% both in the US and Europe in the short term. Compared to the last survey, the results indicate that the likelihood of very low inflation has decreased in both regions. At that time, the probability of inflation below 1% was estimated as 14% in the US and 17% in Europe.

The estimated probability of a stock market crash in 2002 — defined as a 25% decline in a major stock market index — has decreased in both the US and Europe. In our earlier survey, the respondents gave a US stock market crash a probability of 18%, but now it is only 14%. Their view of the probability for a European market crash fell to 9% from 18%.

US



Europe



A stock market decline of this magnitude would slow economic growth in both the US and in Europe, but the risks are considered lower than they were at the time of the last survey. In the event that the S&P 500 were to decline by 25% or more next week — and remain down for all of next year — the economists assign a 32% probability to real US GDP growth of under 1%, down from 67% in our last survey. For Europe, the probability of below 1% growth after a similar shock to the Euro Stoxx 50 is 37%, down from 53% in the last survey.

Respondents indicated that the likelihood of stock prices declining in 2002 and not recovering to 2001 year-end levels until after 2011 was about 3% both in Europe and the US. In comparison to the last survey, the long-term risks for stock markets have fallen marginally in both regions.
Among those surveyed, the probability of high average inflation (more than 4.5%) over the next three years has decreased slightly to 6% in the US, from 8% six months ago, while in Europe it has fallen from 5% to 4%.
The risk of two years of negative growth decreased in the US from 10% to 7%, while for Europe it decreased to 6% from 11%. The risk of five years of negative growth fell to 1% for the US from 4%, while for Europe it decreased to 2%, down from 5% previously.
In the latest survey, we included for the first time a question relating to the probability of a sharp fall in value of the US dollar or Euro. Respondents indicated that the likelihood of the US dollar declining by 60% against the Euro over three years was 9%, while the estimated probability of the Euro loosing 60% of its value in comparison to the US dollar is only 4%.

Notes for editors:

Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. Gross premiums in 2001 amounted to CHF 28.5 billion (USD 16.9 billion). Swiss Re has a strong track record of earnings growth only interrupted in 2001 with a net loss of CHF 165 million (USD 97.8 million), largely due to the 11 September 2001 event. At the end of 2001, Swiss Re's shareholders' equity amounted to CHF 22.6 billion (USD 13.6 billion) and the total balance sheet stood at CHF 170 billion (USD 102.4 billion). Swiss Re is rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "A++" by A.M. Best.

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