Media information

Fed rate action commentary from Swiss Re chief US economist

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New York, 4 November 2009 – 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, "There was no surprise, as expected, with the target policy rate today."

"The third quarter GDP report indicated more broad-based demand growth than expected, so the forecast for growth has improved a bit. Only a small amount of the real GDP growth was attributable to inventory changes. Consumer spending contributed 2.4 percentage points (ppt) of the 3.5% total, with only 1.0 ppt due to the "cash for clunkers" stimulus. Housing construction is now contributing to GDP growth, as is government spending. Net exports were a drag on growth – much of that due to imported vehicles, so not a major concern. The risk of a sharp deterioration in growth next year is now closer to 20% — down from 25% a couple of months ago — while the upside risk of a "V" recovery remains a 15% probability. Excess labor and capital capacity will contain inflation for at least a couple of years. Oil prices are expected to return to close to $70 bbl later this year and next year. Under the baseline forecast, real GDP growth is expected to decline 2.5% in 2009, but rise by 2.5% next year and 3.5% in 2011. The yield on the 10-year Treasury note will stay mostly in the 3.3% to 4.0% range through the end of 2010," Karl said.

"A fragile global economic recovery is underway, with China leading the way in Asia. The Japanese economy has also bounced back from a severe recession. In Europe and the US, the recovery is much weaker, but has continued into the fourth quarter with ongoing growth in most economies, given the limited information released so far. Expansionary monetary and fiscal policy is expected to sustain the recovery through next year. By end-2010, however, monetary policy is likely to begin a tightening phase, while fiscal policy will begin shifting its focus to reducing deficits. Real GDP growth in Euroland, Japan and UK is forecast to be 1 to 1.5% next year and China near 9%. Though rising in most countries next year, inflation is likely to be a challenge only in China – rising to 3.5% from deflation this year. Inflation will remain moderate in Europe and Japan. Yields on government bonds in Europe will closely follow US yields, given the forecast assumption of fairly simultaneous monetary tightening. By end-2010, yields on the 10-year government bond will be 3.8% in Germany and 4.2% in the UK. In Japan, the yield will be 1.6% on the 10-year government bond by end-2010," added Karl.

Notes to editors

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