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

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Following today's Federal Reserve Bank interest rate cut of 25 basis points, Swiss Re's chief US economist, Kurt Karl said, "As expected, the Federal Reserve Board cut the federal funds rate target by another 25 basis points today. The cut of only 25 basis points signals a slowing down in the rapid pace of monetary easing. For this cycle, we can expect only one more cut of 25 basis points in January, taking the Fed funds rate to 1.5 percent.

"The aggressive actions this year by the Fed have not yet produced the hoped-for economic recovery," said Karl. "It takes time for interest rates to have an impact. Currently, Swiss Re Economic Research & Consulting expects the recovery to begin in the second quarter of next year. Unfortunately, employment is falling too rapidly for the recovery to arrive sooner. Also, this is a business-investment-led recession and businesses respond slowly to lower interest rates.

"The global economy is in recession, so Canada, the UK and the European Central Bank can be expected to follow this move with monetary easing of their own," asserted Karl. "The Bank of Canada will be cutting interest rates soon, probably by another 50 basis points, while the European Central Bank will cut rates by another 50 basis points before June next year. The world economy is expected to begin expanding along with the US economy in the second half of 2002."

Advisory: Mr. Karl is available for interviews with reporters and editors to elaborate on his comments:

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