



Fed rate action commentary from Swiss Re chief US economist

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New York, 16 September 2003 - Following today's announcement that the Federal Reserve Board would hold the target federal funds rate at 1.0 percent, Swiss Re chief US economist Kurt Karl said, "Since the economy is performing well at this time, the Federal Reserve Board is expected to be on hold for the time being. It takes about a year of solid performance for the Fed to feel reassured the economy is on track for sustained growth.

'Though the current quarter will have strong growth, the monthly indicators remain mixed - we are not out of the woods yet,' said Karl. 'For example, the employment report was very disappointing, consumer confidence sagged in mid-September, and unemployment insurance claims are rising again. Without employment growth, consumer spending will slow down in the fourth quarter, again bringing into question the sustainability of the recovery. With this growth pattern, the Fed will keep the fed funds rate at 1.0 percent until after the middle of next year, and the yield on the 10-year Treasury note will range mostly between 4.1 to 4.6 percent through the end of the year. Next year, as growth firms and the deficits continue to increase, yields on the T-note are expected to rise to between 4.8 and 5.3 percent by year-end.

'Europe's economy remains fragile, but the European Central Bank has signaled it will not cut rates,' added Karl. 'The view now in Europe is that the US engine of growth will support a European recovery next year, so no further rate cuts are warranted. In Canada, after the rate cut of 25 basis points on September 3rd, the Bank of Canada is now on hold, like the Fed, for the foreseeable future. Canada's economy is expected to perform about as well as the US economy.'

About Swiss Re

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