

## Fed rate action commentary from Swiss Re chief US economist

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Following today's announcement that the Federal Reserve Board would raise the target federal funds rate 25 basis points to 1.75 percent, Swiss Re chief economist Kurt Karl said, "The Fed today reinforced its often-mentioned intent to raise the federal funds rate to a more neutral level, by raising the rate to 1.75 percent. Though the economy has been somewhat sluggish and inflation benign, the Fed must raise this rate roughly two percentage points above inflation, or to about 4.0 percent, by the end of 2005.

'The Fed has signaled its intent to raise the federal funds rate at a 'measured' pace, which translates approximately to 25 basis points at each of the next nine or so Federal Open Market Committee meetings,' added Karl. 'Though some analysts and the forward rate market are indicating this may be too rapid, given the weakness in recent economic indicators, the economy is sufficiently robust to withstand these increases, which are mild by historical standards. The Fed has explicitly indicated that if growth strengthens rapidly, it will accelerate the pace of rate increases. However, it has refrained from indicating that a sluggish economy will cause it to delay any rate hikes. Hence, unless the Fed indicates otherwise, there will be two more rate hikes this year in November and December, taking the Fed funds rate to 2.25 percent by year end. Given that economic activity is likely to strengthen in the remainder of the year, the yield on the 10-year Treasury note will increase to 4.5 percent to 5.0 percent by year-end and close to 5.5 percent by the end of next year.

'The European economy continues to grow, but with scant signs of improvement, putting off a move by the European Central Bank until first half of 2005, at the earliest,' said Karl. 'In Japan, the recovery continues and inflation will probably return next year, making a move by Bank of Japan likely in 2006. The Bank of England is still expected to raise its key policy rate to 5.25 percent by year-end. The Bank of Canada, as expected, raise rates earlier this month and will continue to do so. Given the strength of the Canadian economy, the BoC is expected to raise rates by 25 basis points by year-end to 2.5 percent.'

### Notes to editors

Swiss Re is a leading reinsurer and the world's largest life and health reinsurer. The company is global, operating from 70 offices in 30 countries. Since its foundation in 1863, Swiss Re has been in the reinsurance business. Swiss Re has three business groups: Property, Casualty, Life, Health and Financial Services. Swiss Re offers a wide range of traditional reinsurance products and related services, which are complemented by insurance-based corporate finance solutions and supplementary services. Swiss Re is rated 'AA' by Standard, Poor's, 'Aa1' by Moody's and 'A+' by A.M. Best.

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