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Economic Developments in Switzerland  
January-May 1963 12 pages

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Economic Developments in Switzerland: January-May 1963

Summary

The Swiss economy continued along at a high level of activity during the first quarter of 1963 but there were further signs that the boom was petering out. The extremely severe European winter had a slightly depressing effect on some sectors of the economy but seems to have affected the Swiss economy less than some of the other European countries.

Industrial activity was characterized by high levels of employment and output and, at the end of the first quarter, the labor market was extremely tight. Nonetheless, Swiss officials took measures in March to stem the influx of foreign labor into Switzerland.

Consumer demand continued to increase, although at a slower rate, and credit expansion was held back, in part because of the late revival of building activity. In addition, credit restraining measures were renewed in January 1963.

The Swiss trade deficit declined appreciably from the fourth to the first quarter as imports dropped off sharply but the deficit later expanded as imports rose in March and April. Swiss official gold and foreign exchange reserves fell in the first four months of the year but rose sharply in June.

Economic activity continues at high level but boom shows sign of further calming

Economic activity generally remained at high levels in the first quarter of 1963. However, the unusually severe winter weather depressed some sectors, and there were signs that the pace of the boom slackened somewhat further.

The commission for Business Cycle Study reports that in the first quarter, nearly all branches of industry began to reduce their inventories of raw materials, most notably in the machinery and metal industries. This seems to be borne out by the fact that imports of raw materials actually declined in the first quarter as they had in the two previous quarters. Furthermore, new orders from abroad were believed to have continued to fall and the number of industrial building projects completed during the first quarter was considerably below the results of any quarter last year.

Consumer demand has continued to increase although at a slower rate than in the recent past. Retail sales rose 10 per cent in the first quarter this year, or one per cent less than they had risen during the comparable time last year. Moreover, the total number of guest nights spent in Switzerland during the first three months of the year was 2.8 per cent below a year ago. However, this can probably be ascribed in good measure to the discovery of typhoid in Zermatt.

Electricity output and residential dwelling construction alone were exceptions to the general trend towards slower growth. The number of residential building projects completed in the first quarter was 4.8 per cent higher than one year ago; this was a higher year-to-year growth rate than any registered in the four quarters of 1962. Output and consumption of electricity jumped 17 per cent from the fourth quarter to a level 13 per cent above that of first quarter last year, because of the exceptionally cold winter.

Credit expansion during the first quarter of this year was only about half the size of the expansion noted in the first quarter of 1962. The smaller increase, especially in March, was attributable to the slower

growth of overdrafts and advances (which include credits for building construction) because of the retarding effects of the severe winter on construction activity. Also acting to contain credit expansion was the Gentlemen's Agreement on credit restriction between the Swiss National Bank and the Commercial banks which was renewed in January.

Labor market remains extremely tight

The changes in the Swiss labor market during the first quarter were largely determined by the inclement weather. Seasonally adjusted unemployment reached a peak of 1,300 in January as activity in weather-sensitive trades came to a virtual standstill. However, with the advent of more temperate weather, unemployment declined. By March the number of unemployed had fallen to 600 and most of this number consisted of those actually unemployable. (See Table 1.) Actual job vacancies far exceeded registered vacancies since many employers have ceased to apply to employment offices in view of the absence of prospects for obtaining Swiss workers. Thus, at the end of the first quarter, the labor market was once again extremely tight.

The strong demand for labor is reflected in the continued, though declining, increase in the number of foreign workers in Switzerland. The number of foreigners employed rose 15 per cent from February 1962 to February 1963 in comparison to a 28 per cent increase in the previous year. (See Table 2.) The great part are "nonseasonal" workers, who remain in the country for extended periods and are employed for the most part in industry.

In an attempt to check the growth of the foreign labor force, the Federal Council recently set restrictions on new imports of labor. Beginning

Table 1. Swiss Labor Market  
(seasonally adjusted, calendar months, in thousands)

	<u>Unemployment</u>	<u>Registered Job Vacancies</u>
1962 January	0.5	5.8
February	0.5	5.7
March	0.5	5.7
October	0.5	6.4
November	0.7	6.0
December	1.0	5.9
1963 January	1.3	5.1
February	1.2	5.2
March	0.6	5.4

Source: OECD

Table 2. Foreign Workers Employed in Switzerland

	<u>Total Foreign Workers</u>	<u>Percentage Increase over previous year</u>
February 1961	348,941	+27%
1962	445,610	+28%
1963	512,412	+15%

  

	<u>Non-seasonal workers</u>	<u>As a Percent of Total Foreign Workers</u>
February 1961	275,086	79%
1962	355,249	80%
1963	415,241	81%

Source: Mitteilung No. 159 der Kommission für Konjunkturbeobachtung.

March 7, 1963, foreign laborers will be issued work permits for employment in only those enterprises in which the total number of workers (Swiss and foreign) is less than the average number employed during 1962 or the figure reached at the end of December 1962. This provision will remain in effect until February 1964. It does not apply to agricultural, household, or hospital workers.

Wages and prices rose in first quarter

Wage rates in industry and construction rose by 2.8 per cent from the fourth to the first quarter, more rapidly than usual, to a level 5.7 per cent above that of the first quarter last year. (See Table 3.) Especially notable wage raises were won in construction, in the chemical industry and in the wood industry. The first stage of a three stage upward reclassification of 75,000 clerical and manual government workers took effect on April 1. The second and third stages will take effect in 1964 and 1965 and the ultimate effect will be a 10 per cent boost in salaries. More important, however, is the fact that employees have agreed in return not to seek a shorter work week before the end of this year. The government and employers' organizations view a reduction of the work week as dangerous and inflationary. They have therefore sought to block advances in this direction.

A demand for shorter working hours is at the heart of the important strike of Zurich plasterers. The plasterers have been on strike since the beginning of April and are demanding an immediate increase of 60 centimes (14 cents) an hour and a reduction of the work week from 42-1/2 to 40 hours by the beginning of 1965. Negotiations are stalemated on the work week issue and employers' organizations are afraid that a concession of this point on their part will lead to similar demands in other trades and industries.

Table 3. Switzerland: Wage Rates in Industry and Construction

		<u>Percentage change over the previous quarter</u>	<u>IV 1960 = 100</u>
1961	I	+1.4	101.4
	II	+0.9	102.3
	III	+0.9	103.2
	IV	+1.4	104.6
1962	I	+2.6	107.3
	II	+1.0	108.4
	III	+1.1	109.6
	IV	+0.7	110.4
1963	I	+2.8	113.5

Source: Mitteilung No. 159 der Kommission fuer Konjunkturbeobachtung.

Table 4. Switzerland: Price Indices  
(August 1939 = 100; month or monthly averages.)

		<u>Consumer Price Index</u>	<u>Total</u>	<u>Wholesale Price Index</u>	
				<u>Domestic</u>	<u>Foreign</u>
1961		187	215	213	217
1962	I	192	219	219	219
	II	194	222	222	221
	III	196	223	226	218
	IV	197	225	227	222
1963	January	198	230	230	229
	February	199	229	231	227
	March	199	230	231	229
	April	199	231	231	230
Percentage increase:					
	I 1962 - I 1963	3.6%	5.0%	5.4%	4.1%
	IV 1962 - I 1963	1.2%	2.2%	1.7%	2.7%

Source: Swiss National Bank

The upward trend in prices continued during the first quarter as increases in the price of food caused both the retail and the wholesale price indices to rise seasonally. The consumer price index was up 1.2 per cent from December to April, and a total of 3.6 per cent between the first quarter of this year and last. (See Table 4.)

Increases in the prices of important raw materials also contributed to the upward movement of the wholesale price index. Wholesale prices rose 2.2 per cent from the fourth to the first quarter to a level 5 per cent above that of the previous year. In the first quarter, as in the quarter before, prices of imported goods showed a greater increase (2.7 per cent) than did prices of domestically-produced goods (1.7 per cent).

The upward pressures on prices will be stimulated in future months by recently authorized increases in milk prices and the 7 per cent increase in rent of apartments and rooms subject to rent control.

Counter-inflationary influences. The Swiss authorities remain extremely concerned over wage and price increases and have continued to take measures designed to reduce pressures within the economy. The extension in January of the Gentlemen's Agreement restricting credit expansion was one such measure.<sup>1/</sup>

The controls set on the import of foreign labor from March 1963 through February 1964 (see page 3) are also viewed as anti-inflationary by the authorities. Government officials hope that by reducing the influx of foreign labor, heavy pressures on housing, which have resulted in increased demands for dwelling construction and higher rents, will be reduced. It is, however, difficult to view this measure as anti-inflationary since reduced

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<sup>1/</sup> See "Recent Economic Developments in Switzerland, October 1962-March 1963."

availability of foreign labor should increase the pressures on an already extremely tight labor market and cause wages to rise with renewed vigor.

A dampening effect was exerted on the economy by the 1962 budget surplus. The Federal budget closed with an apparent surplus of SF 485 million; since transfers amounting to SF 120 million were made to government reserves, however, the real surplus was actually higher by that amount. Net redemption of federal debt amounted to SF 260 million in 1962, thus, a total amount of SF 345 million was withdrawn from domestic circulation.

#### Smaller trade deficit for first quarter

Seasonally adjusted Swiss foreign trade figures show a decline in imports and a rise in exports in the first quarter. (See Table 5.) Consequently the trade deficit decreased from \$64 million in the fourth quarter of 1962 to \$55 million in the first quarter. However, the unusually severe winter and the resulting interruption in Rhine ship traffic distorted trade results and caused erratic month-to-month fluctuations in exports and imports.

Adjusted imports fell sharply by \$10 million in January and increased only slightly in February. This might in some part reflect the flattening of the Swiss boom; industries, for example, have reduced their inventories and therefore imports of raw materials. However, imports rose \$17 million in March and a further \$13 million in April. March results can probably be accounted for in large part by the working-off of unsatisfied winter import demand; Swiss authorities are, however, unable to explain the further sharp rise in April.

After a sudden drop in December, exports returned in January to the average level maintained in the second and third quarters of 1962. Adjusted

Table 5. Swiss Foreign Trade: 1962 - April 1963  
(seasonally adjusted, month or monthly average, in millions of U.S. dollars)

		<u>Imports c.i.f.</u>	<u>Exports f.o.b.</u>	<u>Trade balance</u>
1962	I	250	181	-69
	II	244	186	-58
	III	256	186	-70
	IV	251	187	-64
1963	I	247	192	-55
1962	September	250	193	-57
	October	253	186	-67
	November	251	197	-54
	December	250	176	-74
1963	January	240	186	-54
	February	243	194	-49
	March	260	197	-63
	April	273	197	-76

Source: OECD

Table 6. Switzerland: Official Gold and Foreign Exchange Reserves  
(in millions of U.S. dollars, end of period figures)

	<u>1 9 6 2</u>				<u>1 9 6 3</u>			
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>April</u>	<u>May</u>	<u>June</u>
Gold	2444	2409	2453	2667	2461	2453	2453	2530
Foreign exchange	164	297	176	205	177	179	174	175
Total	2608	2705	2629	2872	2638	2632	2627	2705

Source: International Financial Statistics

exports expanded sharply in February and rose slightly further in March. However, the March export level was maintained in April and since imports increased \$13 million in April the trade deficit widened to \$76 million.

#### Foreign Exchange Reserves decline

Gold and foreign exchange reserves of the Swiss National Bank fell \$234 million in the first quarter. (See Table 6.) However, \$217 million of this decline occurred in January when the \$255 million 3-way swaps between the central bank, the BIS and Swiss commercial banks were reversed.<sup>1/</sup> Swiss National Bank reserves fell \$6 million in February and \$11 million in March. In April gold reserves declined \$8 million; this loss was partly offset by a \$2 million gain in foreign exchange. Gold holdings did not change in May but foreign exchange assets fell \$5 million.

In June the Swiss National Bank again enabled Swiss commercial banks to shore up their franc position for mid-year window-dressing purposes by entering into dollar-franc swaps with the banks. Commercial banks sold the central bank spot dollars for francs and agreed to repurchase the dollars value-date beginning of July. The Swiss National Bank then swapped the dollars received from the commercial banks for gold from the BIS on a short-term basis. These transactions were responsible for the \$77 million rise in BNS gold reserves in June.

#### Foreign Exchange Rate Stronger

With the reversal of year-end repatriation of foreign funds by Swiss commercial banks, the Swiss franc weakened somewhat in January and

<sup>1/</sup> See "Recent Economic Developments in Switzerland: October 1962-March 1963."

averaged 23.120 U.S. cents for the month. In February-April the rate tended to decline slightly, and averaged 23.099 cents in April. In May, however, the rate rose almost without pause and reached a peak of 23.154 U.S. cents on the 24th as early mid-year window-dressing operations by Swiss commercial banks led to a great demand for francs. The rate eased in June when the SNB agreed to swap dollars for francs with Swiss commercial banks over mid-year. Since the commercial banks were helped to satisfy their franc demand in this manner, the demand for Swiss francs slackened in the exchange market.

Swiss participation in the IMF borrowing arrangements

In March the Swiss government publicly announced its willingness to collaborate in international monetary aid actions taken within the framework of the IMF's borrowing arrangements. The decision provides for 10 years' participation and empowers the Federal Government to place a maximum of SF 865 million (\$200 million) at the disposal of the other ten participation countries. Swiss assistance will take the form of swaps, and loans of Swiss francs, gold, or dollars. Switzerland will conclude a framework agreement with the IMF which will establish guide lines along which the assistance of Switzerland and the other participating countries can be coordinated. Swiss aid given under these arrangements must be provided for in advance by bilateral conventions between Switzerland and the individual participants. The size, nature and conditions of Swiss aid will be stipulated in the bilateral agreements, and loans extended by Switzerland will be made directly to the country in question, not to the Fund.

Table 7. Foreign Exchange Rate for the Swiss Franc 1/  
(in U.S. cents per Swiss franc)

Par Value	22.868
Lower Limit	22.472
Upper Limit 2/	23.175

	<u>Month</u>	<u>Monthly Average</u>	<u>Week Ending</u>	<u>End of Week</u>
1962	October	23.139		
	November	23.170		
	December	23.167	April 19	23.098
1963	January	23.120	26	23.098
	February	23.123	May 3	23.103
	March	23.102	10	23.097
	April	23.099	17	23.136
	May	23.127	24	23.154
	June	23.125	31	23.145
			June 7	23.138
			14	23.128
			21	23.120
		28	23.103	

1/ Noon buying rate.

2/ Recent upper limit imposed by the BNS in the Swiss market; however, the Swiss authorities are not committed to hold the rate below 23.283.

Source: Federal Reserve Board.