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Recent Economic Developments in Switzerland:
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Recent Economic Developments in Switzerland: January-December, 1962Summary

Switzerland experienced continued boom conditions in 1962, although the rise in business activity may have slackened somewhat in the third quarter. During the year, output could not be increased fast enough to keep pace with demand, and prices rose. The number of foreign workers in Switzerland registered another big increase, and at the seasonal peak comprised one-fourth of the entire Swiss labor force.

A variety of anti-inflationary measures were taken in 1962. These steps -- all of a voluntary nature -- included agreements with the banks to limit bank credit expansion and to offset additions to bank liquidity; with industrialists to hold the line on prices in many industries; and with the financial community to discourage inflows of foreign capital. These agreements are reviewed in this paper.

Stock prices underwent exceptionally wide fluctuations in Switzerland, and at the end of the year were one-third below the all-time peak level last March. Interest rates moved up moderately during the year. New issues of Swiss securities increased over 1961, but foreign bond issues declined because of tighter rationing of foreign access to the Swiss capital market.

Switzerland's external surplus was reduced in 1962, but was still large because of continued heavy inflows of capital, notably in June and July at the time of movements out of the Canadian dollar and U. S. dollar. Adjusted reserves rose \$242 million through December 15 despite a current-account deficit that probably exceeded \$300 million. Because of special official transactions, the surplus did not show up in the official gold

and foreign exchange holdings, which declined \$96 million to \$2,662 million as of December 15.

Boom may have slackened in third quarter

Booming prosperity and further substantial increases in output were recorded in the Swiss economy in 1962. The economic picture was marred only by upward price pressures as supply, strained to the utmost, could not expand as fast as demand. But there were some indications that in the third quarter the rate of increase in economic activity slowed somewhat.

For the first nine months of 1962, three economic indicators -- retail sales, goods traffic on the railroads, and electric power production -- showed larger increases over the year-earlier period than they had in the year 1961. (See Table 1.) But the increases in construction and tourism were smaller in 1962 than in 1961.

TABLE 1. Switzerland: Changes in Selected Economic Activities, 1961-62

	Percentage increase		
	1961 over 1960	1962 over 1961	
	Year	Jan.-Sept.	July-Sept.
Retail sales	11.1	11.8	10.2
Railroads: goods traffic	4.8	6.2	4.4
Electric power production	4.2	6.1	5.3
Construction: dwellings completed ^{a/}	4.1	1.2	3.2
Construction: industrial projects approved	15.4	10.8	5.6
Tourism: guest-nights spent ^{b/}	8.1	3.7	2.6

^{a/} In 65 largest towns.

^{b/} In hotels, motels, "pensions," sanatoria and spas.

Source: Swiss National Bank.

There were reports of slower expansion in some activities in the third quarter of 1962, and the data in Table 1 exhibit generally smaller increases for the third quarter (relative to a year previous) than for the nine months January-September. Some wholesale prices dropped sharply in the third quarter. In addition, orders in the metals industry declined from 10.6 to 10.3 months' production between June and September. This followed a previous decrease from 10.8 months' production in March which was the first since the end of 1958.

The availability of labor continued to be the principal limitation to expansion. Seasonally-adjusted data for September show 400 unemployed persons and 6,100 registered job vacancies, a figure which considerably understates the actual unfilled labor demand. These two figures have not changed significantly for two years. To augment the labor force, further heavy recourse was had to imports of foreign labor. The annual August survey of foreign workers showed an 18 per cent increase between August 1961 and August 1962 in the number of foreign workers. On the latter date, the 645,000 foreign workers comprised almost 25 per cent of the total labor force of between 2.6 and 2.7 million.

Continuing rise in consumer prices

The third quarter of 1962 saw a continuation of the rising trend of consumer prices that had begun a year and one-half earlier. (See Table 2.) In September, the general consumer price index was 6.6 per cent higher than in March 1961 and 4.7 per cent higher than in September 1961. While food prices showed the greatest advance, varying degrees of increase were registered by all other groups of consumer goods and services.

TABLE 2. Switzerland: Price Indexes, End of Quarter, 1960-62

(August 1939 = 100)

	1960	1961				1962		
	IV	I	II	III	IV	I	II	III
Consumer prices								
General index	184.7	184.3	186.0	187.6	191.2	192.2	195.1	196.4
Of which: food	197.6	195.3	197.1	200.0	205.9	206.5	211.0	212.3
Wholesale prices								
General index	213.2	212.9	214.1	215.9	218.7	220.3	222.3	221.2
By origin of goods:								
Swiss	210.9	210.2	212.3	215.0	218.9	220.0	223.6	223.7
Imported	215.8	216.3	216.1	216.3	218.2	220.4	220.1	217.0
By type of goods:								
Foodstuffs	213	211	214	217	221	222	225	221
Constr. mat.	250	259	261	261	263	269	270	270
Metals	261	262	266	266	265	265	260	257
Textiles, leather, and rubber	217	218	219	218	216	220	223	216
Coal, fuel wood	208	208	204	205	206	206	206	207
Petroleum prod., chemicals	135	134	134	133	134	141	139	140
Forage, fertilizers	182	182	176	177	179	179	185	210

Source: Swiss National Bank.

Wholesale price rise halted in third quarter

Wholesale prices in Switzerland also rose appreciably from the second quarter of 1961 until mid-1962, especially for commodities of Swiss origin. (See Table 2.) The general index in June 1962 was up 4.4 per cent over March 1961 and 3.8 per cent over June 1961. For commodities of Swiss origin, the corresponding increases were 6.4 and 5.3 per cent. Prices of foodstuffs underwent the greatest increase, the rise in part reflecting the bad harvest.

The upward movement was halted in the third quarter of 1962 when the general index declined 0.5 per cent between June and September. Price indexes for metals, foodstuffs, and the category comprising textiles, leather, and rubber dropped sharply.

Anti-inflationary measures taken

Concern over inflationary pressures -- manifested by both rising prices and rapidly increasing imports -- led the Swiss authorities to take a number of anti-inflationary moves during the year. These steps characteristically took the form of moral suasion and "gentlemen's agreements."

1. An agreement between the Swiss National Bank and the Swiss commercial banks effective April 1, 1962, imposed limits on bank credit expansion. Under the terms of the agreement, the commercial banks undertook to limit the absolute increases in credit in the nine months April-December to specified percentages of the absolute increase in the full year 1960 or 1961, whichever had been greater. The percentages were 65 per cent for discounts and advances and 85 per cent for mortgages. The restrictions were not severe, but it was believed at the time that the Swiss National Bank would press for an agreement with more restrictive provisions on bank credit expansion in 1963.

2. Special arrangements were made to offset the increases in the liquidity of the Swiss commercial banks resulting from heavy inflows of capital from abroad in June-July and in October; these measures are described in the balance of payments section later in this paper.

3. In August, the Swiss National Bank and the commercial banks renewed for six months their "gentlemen's agreement" on inflows of foreign capital first made in August 1960. The agreement continues to place unattractive terms on new foreign-owned bank accounts, and prohibits new foreign investment in Swiss securities and real estate.

4. In the first half of 1962, firms in a wide range of industries agreed not to raise prices. A much smaller number of industries also agreed

to freeze, or severly limit the increase in, the number of their employees, in order to reduce competition for labor and the upward pull on wage rates.

5. Federal Government officials have attempted to persuade the cantonal governments to restrict their investment programs. These efforts have reportedly been successful in some cases and not successful in others.

Wide swings in stock prices

Developments in Swiss financial markets in 1962 were dominated by fluctuations in stock prices which were wider than those in other leading financial centers. Although the swings were wider in Switzerland, market analysts ascribed them to the fluctuations on Wall Street. Currently, Swiss stock prices are down one-third from their all-time peak.

Stock prices reached a record high in Switzerland on March 9, 1962, or three months later than in the United States. The industrials index (1958=100) dropped virtually without interruption from 279 on March 9 to 176 on June 15, a decline of 40 per cent. (See Table 3.) Subsequently, the index rose 20 per cent from June 15 to August 17; fell again by 20 per cent between August 17 and October 26 (to a new low for the year); climbed 21 per cent between October 26 and November 30; and fell slightly (4 per cent) from November 30 to December 21. The index on December 21 (198) was 32 per cent below the March peak.

TABLE 3. Switzerland: Industrial Stock Index, Selected Dates, 1962

(1958 = 100)

January	5 - 282	August	17 - 211
March	9 - 293	October	19 - 172
May	25 - 225	October	26 - 169
June	1 - 225	November	30 - 206
June	15 - 176	December	21 - 198

Source: Swiss National Bank.

In terms of yields, stock prices in early 1962 were more vulnerable to a setback in Switzerland than elsewhere, and despite the price deflation yields on Swiss stocks are currently still lower than those in other major markets.

Moderate rise in interest rates

The general tendency of interest rates in 1962 was moderately upward, as shown in Table 4. The yield to maturity on long-term government bonds in mid-December was 3.10 per cent compared with 2.98 per cent a year earlier. The intervening rise in March-April and decline in July-September appear to be related to an outflow of Swiss capital early in the year, and a repatriation of Swiss capital in June-July. Yields on newly-issued deposit certificates moved up slightly.

TABLE 4. Switzerland: Selected Interest Rates, 1961-62

Long-term and medium-term yields, selected dates

<u>Date</u>	<u>Long-term gov't bonds</u>	<u>Deposit certificates of</u>	
		<u>12 cantonal banks</u>	<u>5 large banks</u>
1961 - December 15	2.98	3.34	3.27
1962 - March 9	2.99	3.35	3.29
April 27	3.31	3.37	3.29
May 18	3.12	3.37	3.29
June 15	3.23	3.38	3.32
July 20	3.23	3.39	3.39
September 14	3.11	3.39	3.39
December 14	3.10	3.39	3.39

Rate on 3-month bank deposits, high and low by periods

	<u>High</u>	<u>Low</u>
1961 - Quarter IV	1-3/4	2-1/2
1962 - Quarter I	1-7/8	2-3/8
II	2-1/8	2-1/2
III	2-1/4	2-1/2
IV <u>a/</u>	2-1/2	3
December <u>a/</u>	2-7/8	2-7/8

a/ Through December 22.

Source: IBRD (gov't bond yield) and Swiss National Bank.

On the short-term money market, rates on 3-month deposits in the fourth quarter of 1962 (through December 22) were about 2/3 of 1 per cent higher than in the same period of 1961, and ranged between 2-1/2 and 3 per cent compared with 1-3/4 to 2-1/2 per cent a year earlier. (These rates, which are affected by seasonal influences, rise as the year-end approaches because of window dressing and a cash drain.) The tendency toward higher rates in 1962 reflects the expansion of bank credit while at the same time the Swiss National Bank was successful in preventing capital inflows from swelling the liquid reserves of the commercial banks.

In the four weeks ending December 15, the banks' freely-usable balances with the Swiss National Bank averaged SF 1,813 million in 1962, scarcely higher than the SF 1,789 million in 1961. Bank loans outstanding at the end of September were up 13 per cent in 1962 over 1961.

Contrasting changes in new issues market

In the new issues market, net flotations of publicly-placed issues of Swiss stocks and bonds in January-November were 20 per cent greater than a year earlier. Most of the increase was in shares, despite the severe drop in stock prices. On the other hand, new foreign bond issues, net of reimbursements, declined from \$200 million in 1961 to \$100 million in 1962 because of tighter "rationing" by the Swiss authorities of foreign access to the Swiss capital market.

Trade volume increases, trade gap holds steady

Through October, both the imports and exports of Switzerland increased appreciably. (See Table 5.) In the three months August-October, seasonally-adjusted imports were up 5.3 per cent over the last quarter of 1961, while the comparable increase for exports was 6.7 per cent. Exports rose in 1962 at about the same rate as in 1961, but import expansion was much less rapid than the year before. In 1961, imports had risen 20 per cent between the final quarters of 1960 and 1961.

TABLE 5. Switzerland: Seasonally-Adjusted Foreign Trade

(in millions of dollars; monthly average or month)

	<u>Imports c.i.f.</u>	<u>Exports</u>	<u>Balance</u>
1960 - Quarter IV	201	164	- 37
1961 - Quarter I	217	168	- 49
II	216	168	- 48
III	228	172	- 56
IV	241	175	- 66
1962 - Quarter I	250	181	- 69
II	244	186	- 58
III	256	186	- 70
August	258	181	- 77
September	250	193	- 57
October	253	186	- 67

Source: OECD.

The seasonally-adjusted trade deficit, which had widened considerably in 1961, did not tend to increase further during the course of 1962, and held at about the level reached in the last quarter of 1961. However, for 1962 as a whole the deficit will probably be about \$135 million higher than the deficit for the full year 1961.

External surplus reduced, but capital inflow again heavy

Switzerland's external surplus was smaller in 1962 than in 1961, partly because of less capital inflow. But the inflow was still of very large proportions.

Swiss National Bank reserves, adjusted for special official transactions, increased \$242 million through December 15, compared with \$546 million in 1961. (See Table 6.) In part, the reduction reflected a rise in the trade deficit (imports c.i.f.) from \$656 million in 1961

to around \$790 million in 1962.^{1/} The surplus on current invisibles was probably not much changed from the \$452 million recorded in 1961, and the current-account deficit in 1962 can be placed in the neighborhood of \$338 million. Thus, it may be estimated that capital movements (excluding those connected with special official transactions) produced a net inflow of about \$580 million. The comparable figure for 1961 was \$770 million. Included in the net figure for 1962 is an outflow of \$100 million on account of net foreign bond issues on the Swiss capital market.

TABLE 6. Switzerland: Official Reserve Changes, 1961-62

(in millions of dollars)

	<u>1961</u> <u>Year</u>	<u>1962 by quarter</u>			
		<u>I</u>	<u>II</u>	<u>III</u>	<u>a/IV</u>
<u>Actual change</u>	<u>+ 436</u>	<u>- 151</u>	<u>+ 97</u>	<u>- 77</u>	<u>+ 35</u>
Adjustments: <u>b/</u>					
Gov't loan to United Kingdom	+ 50	-	-	-	-
Swiss Treasury short-term foreign investments <u>c/</u>	+ 60	+ 53	+ 30	+ 65	-
Swiss National Bank:					
Reciprocal balance with FRS	-	-	-	- 50	-
Sale of dollars to Swiss commercial banks	-	-	-	+ 50	+ 30
Sale of dollars to FRS	-	-	-	+ 110	+ 20
Other	-	-	-	-	+ 30
<u>Adjusted change</u>	<u>+ 546</u>	<u>- 98</u>	<u>+ 127</u>	<u>+ 98</u>	<u>+ 115</u>

a/ Through December 15.

b/ Sign shows direction of adjustment, and is the opposite of the effect of the transaction on reserves.

c/ Approximate figures.

About one-half of the capital inflow took place in two periods. Accruals of exchange to the Swiss National Bank amounted to \$252 million

1/ Estimate based on seasonally-adjusted data for 10 months.

between May 31 and July 23, a period which corresponded to intense speculation against the Canadian dollar and a movement out of the U. S. dollar. In the final week of October, accruals of \$57 million resulted from the Cuban crisis.

Following these two heavy inflows of funds, special measures were taken to reduce both the dollar holdings of the Swiss National Bank and the liquid franc balances of the Swiss commercial banks.

In July the Federal Reserve System reportedly drew francs obtained under reciprocal currency swap arrangements with the Swiss National Bank and the Bank for International Settlements, and purchased \$100 million of Swiss National Bank dollar reserves. According to press reports, the Swiss franc balances of the Swiss commercial banks were reduced by the equivalent of \$100 million through: (1) sale to the banks of \$50 million credited to the Swiss National Bank under the swap with the FRS, and (2) Swiss franc transactions relating to the financing of the BIS participation in the swap arrangements.

In October, according to press reports, the Federal Reserve System purchased \$20 million of Swiss National Bank dollar reserves by drawing further on the swap with the BIS, and the Swiss National Bank sold \$30 million of dollars to the Swiss commercial banks.

The above-cited operations were among the special official transactions taken into account in the adjustment of official reserve changes. These transactions, which appear to have totalled \$338 million (net), also included an estimated \$148 million of short-term foreign investments by the Swiss Federal Treasury. The adjustments to the changes in official reserves are given in Table 6. Because of these

special offsets, gold and foreign exchange reserves of the Swiss National Bank declined \$96 million, to \$2,662 million on December 15.

Swiss franc fluctuates widely but remains well above parity

The exchange rate of the Swiss franc underwent wide fluctuations in 1962, but at all times the franc was well above its parity with the U. S. dollar of 22.87 U. S. cents.

The franc declined during the first quarter, and between March 15 and the end of April the Swiss National Bank intervened on occasion to keep the rate from falling below 23.00 U. S. cents. It recovered sharply in May, because of the change in the rate of the Canadian dollar, and between June 1 and July 23 heavy movements of funds to Switzerland kept it at 23.175 cents, its de facto upper limit against the dollar. After President Kennedy's Telstar press conference on July 23, the franc again declined and was quoted at about 23.14 U. S. cents just before the Cuban crisis. During the Cuban crisis the rate was again at the upper limit of 23.175 cents. In November and December the rate was near or at the upper limit.

Foreign-Currency Debt

Switzerland does not appear to have any public debt in foreign currencies.