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Recent Economic Developments in Switzerland:

October 1962 to March 1963

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Summary

The pace of economic expansion in Switzerland, which had begun to slacken slightly during the third quarter of 1962, slowed down further in the final months of the year. The labor market has remained extremely tight but the pressure on prices and costs appears to have eased slightly. However, the authorities continue to be preoccupied with the "overheating" of the economy; a voluntary credit-restraint program which the authorities concluded with the banks on January 1, 1963, was slightly more restrictive than the similar program in effect during most of 1962.

The moderation in the business upswing is evident from fourth quarter statistics released since the previous review of economic conditions in Switzerland on January 3.<sup>1/</sup> A slowing of machinery imports and industrial building activity, and a further decline in raw materials imports below year-ago levels, suggest some slackening in the expansion of private fixed investment and of inventories. Exports again failed to increase in the fourth quarter and new orders were believed to be declining. Wholesale and consumer prices rose further in the fourth quarter but at a reduced rate. On the other hand, retail sales continued to run very strong.

The Swiss balance of payments was approximately in equilibrium in the first three months of 1963. A decline in official reserves in January reflected the unwinding of swaps with Swiss commercial banks, which had repatriated funds in December for seasonal reasons. Reserves fell \$6 million in February and \$13 million in March.

1/ See R. H. Mills, Recent Economic Developments in Switzerland: January-December, 1962.

Boom shows less vigor

A bit more of the steam appears to have gone out of the Swiss boom in the fourth quarter of 1962. While the employment situation remained drum-tight, price pressures eased slightly. Bank credit continued to expand much less rapidly than it had a year before. This slowing dates from the end of the first quarter of 1962, when the Swiss National Bank and the commercial banks agreed to restrictions on credit expansion. But the banks apparently did not make full use of their credit ceilings during the period covered by that agreement (April-December). The Neue Zuercher Zeitung believes it likely that this slowing of credit expansion was, therefore, due to factors other than the restrictions, including a slower rise in the demand for loans.

Fixed investment outlays by business firms have apparently been advancing less and less rapidly. During 1962, there were progressively smaller increases over 1961 in completions of industrial construction projects, as well as in imports of machinery (and of other finished goods as well). (See Table 1.) In addition, Swiss analysts regard the progressively larger decreases in imports of raw materials between 1961 and 1962 as evidence of reduced accumulations and, in the fourth quarter, actual reductions in inventories. The gain over 1961 in railroad freight traffic--which had earlier been declining slightly--disappeared completely in the fourth quarter.

Completions of residential dwellings, which had exhibited a reduced rise in the third quarter, were smaller in the last quarter of 1962 than a year before. After mid-1962, tourist activity enjoyed reduced gains.

Finally, export demand became less vigorous. New export orders in the fourth quarter were smaller for the second successive quarter. After the middle of 1962, actual exports showed smaller increases over a year before, and

Table 1. Switzerland: Changes in Selected Economic Indicators, 1961-62  
(Percentage increase over corresponding period of previous year)

	<u>1961</u>	<u>1 9 6 2</u>				
	<u>Year</u>	<u>Year</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
Building completions:						
Industrial projects	15.4	9.7	22.3	6.1	5.8	5.5
Dwellings	4.1	- 1.3	-6.0	4.6	3.2	-7.2
Imports:						
Machinery	37.3	22.2	33.5	23.6	19.1	14.8
Other finished goods <sup>a/</sup>	26.8	16.0	20.8	19.0	15.9	8.5
Raw materials	11.9	0	6.8	-1.4	-0.3	-4.7
Railroads: freight carried	4.8	4.6	8.4	6.1	4.4	-0.1
Exports	8.3	8.8	9.4	9.2	7.8	7.3
Tourism: guest-nights spent	8.1	3.5	4.1	5.4	2.6	2.5
Retail sales	11.1	11.9	10.9	16.1	10.2	11.4
Electricity consumption	6.3	<u>b/6.4</u>	7.4	4.6	5.3	<u>b/9.1</u>
Consumer prices	1.9	4.3	4.1	4.8	4.9	3.5
Wholesale prices	0.1	3.4	3.1	3.9	3.5	3.3

<sup>a/</sup> Excluding foodstuffs.

<sup>b/</sup> Through November.

Sources: Swiss National Bank and Commission de Recherches Economiques.

seasonally-adjusted export shipments failed to increase in the second half of the year. (See Table 3, page 5.)

However, retail sales have held up well, and the year-to-year increases of 10 to 11 per cent in last two quarters matched that in the first quarter. In addition, electricity consumption exhibited increasing year-to-year gains in the last half of the year.

Prices were still rising in the closing months of 1962. In the fourth quarter, both consumer and wholesale prices were up 1 per cent over the third quarter. But these increases were somewhat smaller than the fourth quarter increases in 1961 of 1.7 per cent for consumer prices and 1.2 per cent for wholesale prices. Thus, in the last quarter consumer prices were up 3-1/2 per cent over a year before, compared with 4 to 5 per cent earlier in the year. The year-to-year rise in wholesale prices in the last quarter was 3.3 per cent, down from 3.9 per cent in the second and 3.5 per cent in the third.

#### Further anti-inflationary steps taken

Although pressures on resources appeared to be lessening, prices continued to rise throughout 1962, and the Swiss authorities have continued to view the economy as "overheated." A new gentlemen's agreement between the Swiss National Bank and the commercial banks to restrict private credit expansion in 1963 took effect on January 1, to replace the initial agreement which expired at the end of 1962.

The new agreement is slightly more restrictive than its predecessor. It allows increases in 1963 equal to specified percentages of the absolute increase in 1960 or 1961, whichever was greater. The percentages are 108 per cent for mortgages and 82 per cent for other credits. The corresponding limits under the previous agreement (covering April-December 1962) were equivalent to full-year

Table 2. Switzerland: Swiss National Bank Reserves  
(In millions of dollars)

	<u>Gold</u>	<u>Foreign Exchange</u>	<u>Total</u>
<u>1962</u>			
November 30	2,421	192	2,613
December 31	2,667	205	2,872
<u>1963</u>			
January 31	2,455	200	2,655
February 28	2,461	188	2,649
March 7	2,461	182	2,643
15	2,461	177	2,638
23	2,461	176	2,637
30	2,461	175	2,636

Table 3. Switzerland: Seasonally-Adjusted Foreign Trade, 1961-62  
(monthly averages in millions of dollars)

	<u>Imports c.i.f.</u>	<u>Exports</u>	<u>Balance</u>
<u>1961</u>			
Qtr. I	217	168	- 49
II	216	168	- 48
III	228	172	- 56
IV	241	175	- 66
<u>1962</u>			
Qtr. I	250	181	- 69
II	244	186	- 58
III	256	186	- 70
IV	251	187	- 64

increases of 113 and 87 per cent, respectively. In terms of percentage increases, the new agreement appears to allow increases in 1963, over end-1962 outstanding levels, of about 8 per cent in mortgages and 14 per cent in other credits. The earlier agreement, which was somewhat less restrictive, permitted increases in April-December 1962 equivalent, on a full-year basis, to about 9 per cent for mortgages and 16-1/2 per cent for other credits.

These agreements do not tend to cut back on the expansion of mortgage loans, which in 1961 rose 9.1 per cent or by scarcely more than the recent allowed increases. But they allow much smaller increases in the other forms of private bank credit, which in 1961 rose no less than 24-1/2 per cent.

The banks do not appear to have made full use of their permitted credit ceilings in 1962, especially in the case of non-mortgage loans. The agreement covering April-December 1962 allowed increases in those nine months, over end-March outstanding levels, of about 7 per cent for mortgages and 12-1/2 per cent for other credits. Actual increases in the eight months April-November were only 5 per cent and 6 per cent, respectively. On the basis of past experience, it seems doubtful that in December the banks increased their non-mortgage loans so greatly that the credit ceiling was reached.

The Swiss authorities have also been attempting to curb inflationary tendencies through voluntary agreements with employers associations, labor unions, and representatives of agriculture. Since mid-December, representatives of the Swiss Federal Council have been holding talks with these groups. The Economics Minister has asked entrepreneurs to limit manpower demands to existing levels, in order to reduce competition for labor and hence wage increases. An appeal has also been made to the unions to renounce demands for cuts in working hours.

These efforts have so far achieved mixed results. New contracts in the construction and woodworking industry and in the cotton products industry in

February provided for no reduction in working hours in the former, and no reduction in the latter until 1965. However, the annual labor contracts signed in January covering the engineering, metal, and watchmaking industries (which employ 20 per cent of organized labor and traditionally "set the pace" in collective bargaining) provided for a reduction in the work week from 45 to 44 hours, effective May 1, as well as for wage increases.

The price increases in Switzerland in the past year do not appear to stem altogether from large increases in wages. Wage rates in industry and construction rose 5.4 per cent between December 1961 and December 1962, and for the year 1962 averaged 5.8 per cent higher than in 1961. The rise in real net national income in 1962 has been estimated at 7 to 8 per cent, or 1 to 2 per cent less than in 1961.

#### Large movements of funds over the year-end

In December, the Swiss banks repatriated large amounts of funds from abroad in order to meet the heavy seasonal cash drain as well as to dress up their year-end balance sheets. The Swiss press reported that in December the banks entered into about \$255 million of dollar-franc swaps with the Swiss National Bank and the Bank for International Settlements. These swaps, which were for longer than the normal periods, were reversed during January.

To carry out their swaps with the banks, the Swiss National Bank and the Bank for International Settlements made two types of swaps with one another. According to the Neue Zuercher Zeitung of January 12, 1963, the SNB did not wish to let its dollar holdings rise "too far above the limit of Fcs. 750 million [\$175 million] recently established." Therefore, the SNB swapped dollars for gold with the BIS. To obtain francs for its swaps with the banks, the BIS in turn swapped gold for francs with the SNB.

As a consequence, nearly all of the commercial banks' swaps were reflected in the gold holdings of the Swiss National Bank, which increased \$246 million in December. (See Table 2, page 5.) The SNB's dollar holdings rose no more than \$13 million for the month. These dollar holdings reached as high as \$286 million on December 22, but further dollar-gold swaps with the BIS cut them to \$205 million by the end of the month.

Swiss National Bank reserves of gold and foreign exchange rose a total of \$259 million in December 1962, or by nearly the same amount as the reported swaps of the commercial banks. In January, when the swaps were unwound, SNB reserves fell \$217 million, or \$42 million less than the reported amount of swaps.

#### Reserves decline in February-March

Swiss National Bank reserves fell \$6 million in February. After declining \$6 million in the first week of March, reserves decreased another \$4 million between March 7 and March 15. Thus, there were no apparent repercussions on Swiss official reserves of the heavy selling of sterling on March 11 and 12. A \$1 million drop in reserves was reported in each of the last two weeks of March.

#### Swiss franc weakens slightly

With Swiss banks pulling funds into the country, the Swiss franc was at or very near its de facto upper limit of 23.175 U.S. cents in most of December. As repatriation was slowed in late December and then reversed in January, the franc declined and was quoted at 23.120 U.S. cents on January 8. From then until the end of February, the rate fluctuated narrowly between 23.101 and 23.135 cents. In March the franc was a bit weaker, with quotations fluctuating between 23.084 and 23.122 cents. At the end of March the franc was quoted at the monthly low of 23.084 cents.

Trade deficit narrows slightly in fourth quarter

Switzerland's foreign trade, on a seasonally-adjusted basis, failed to expand in the fourth quarter, and the trade deficit narrowed from \$70 million per month in the third quarter to \$64 million in the fourth. (See Table 3.) Exports were essentially unchanged for the second successive quarter, while imports fell 2 per cent from the third quarter level.

Larger current deficit in 1962

According to estimates by the Neue Zuercher Zeitung, Switzerland's balance of payments deficit on current transactions widened from \$213 million in 1961 to \$304 million in 1962. (See Table 4.) The trade deficit rose from \$656 million to \$792 million, as imports increased 11-1/2 per cent and exports 9 per cent. The rise in the trade gap exceeded the increase in the surplus on current invisibles, which rose from \$444 million to \$488 million.

However, as reported on earlier occasions, capital inflows greatly exceeded the current deficits of the past two years. Since Swiss National Bank reserves, adjusted for special official transactions, increased \$546 million in 1961 and \$433 million in 1962 in spite of the current deficits, capital movements (excluding those connected with the special official transactions) produced net inflows of \$759 in 1961 and \$737 million in 1962.

Table 4. Switzerland: Balance of Payments on Current Account, 1961-62  
(In millions of dollars)

	<u>1961</u>	<u>1962</u> <sup>a/</sup>
Imports c.i.f.	2,708	3,020
Exports	<u>2,052</u>	<u>2,228</u>
Trade balance	- 656	- 792
Foreign travel	251	279
Investment income	165	174
Freight	45	50
Insurance	34	40
Miscellaneous	<u>- 57</u>	<u>- 66</u>
Balance on invisibles	444	488
Total current account	- 213	- 304

a/ Estimates.

Source: Neue Zuercher Zeitung.