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Recent Economic Developments in the Netherlands
December 1962-April 1963

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Recent Economic Developments in the Netherlands,
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The general improvement in economic conditions in the Netherlands, reported in the preceding review of developments in the latter part of 1962,^{1/} was maintained during the early months of 1963. The impact of the severe winter on output appears to have been less than in neighboring European countries. After being curtailed in December, industrial production has since risen without interruption. Domestic consumption and export demand have been the main expansionary factors and domestic investment demand (except in building) has continued to lag.

Inflationary pressures (except in the building sector) have continued to ease. Productivity increased considerably in the last months of 1962 and is reported to be increasing further. The labor market, which eased somewhat in the second half of 1962, continued to relax, no doubt in part because of the severe cold which brought all building activity to a virtual standstill. However, pressures in the building sector appear unabated. The housing shortage has become so serious that Government spokesmen in the recent election campaign have admitted that their housing policy has not been a success.

Wages have continued to rise, but at a lesser rate than early last year, when during the first two months of the year hourly wage rates rose by 4.5 per cent as over against an increase of under 2 per cent in the comparable 1963 period. A primary factor in the recent upward movement has been the improvement of wage scales for women, possibly in response to the EEC requirement that the ratio of women's to men's pay for

^{1/} See "Recent Economic Developments in the Netherlands, October 1962 to January 1963," dated February 26, 1963.

equal work should be at least 90 per cent by July 1. As a result, government pay rates for women were substantially improved early this year. Wage increases currently negotiated are generally being kept within the 2.7 per cent recommended by the Government.

The recent elections will hardly produce drastic changes in the policies of the Government. The outgoing coalition retained its comfortable majority but the Liberal party (which suffered some losses) may pull out of the coalition in which case a Catholic-Labor party government is likely to be formed. This change would have little impact on either domestic or foreign policy since all major parties are in agreement on fundamental policy issues.

The external position continued to improve in early 1963. Surprisingly favorable fourth quarter trade results brought about an unexpectedly large current account surplus for 1962. And there are indications that this favorable trend continued in early 1963. The Dutch guilder has been very strong in foreign exchange markets as a result of the favorable foreign position. In addition, some tightening in the Dutch money market in early March and again in April caused commercial banks to repatriate part of their foreign employed funds. The April tightening seems to have been the result of various temporary factors operating at the same time and in the same direction rather than the result of an expansion in demand for credit or a change in central bank policy.

Output expanding despite severe winter

Industrial production, which was about unchanged in the first half of 1962 and which actually declined in the third quarter, started to expand again towards the end of the year (see Table 1). Because of a very large increase in output in October, the seasonally adjusted index of industrial production for the fourth

quarter was 3 per cent higher than in the preceding quarter. This high level of output in part reflected anticipatory ordering for the long December holiday and was not sustained in the following two months.

Early in 1963, however, output started to expand again and in February was only 1 index point below the high October level. This vigorous expansion was the more surprising as the severe winter had brought building activity to a virtual standstill. The production index, to be sure, excludes building activity, but the building supplying industries are included and they (together with the chemical and the metal industries) contributed to the end-of-year rise in the index.

Table 1: Netherlands: Industrial Production^{1/} 1962-February 1963
(Index numbers, 1953=100, seasonally adjusted,
monthly averages)

1962		1962	
I	166	Oct.	171
II	165	Nov.	169
III	163	Dec.	163
IV	168	1963 Jan.	167
		Feb.	170

^{1/} Excluding building

Source: OECD

With building activity resuming, the rise in output should be reinforced. The monthly industry survey conducted by the Central Bureau of Statistics showed that daily production increased in March and that a further increase is expected for April.

Consumption and foreign demand main factors in expansion

The main factors underlying the expansion in output were domestic

consumption and foreign demand, as was the case in 1962. The volume of total domestic consumption at the end of 1962 was 6 per cent above the comparable 1961 level (see Table 2). Consumption of durable goods, rising by 9 per cent, registered the largest increase over the year. Food, alcohol, and tobacco consumption was up 4 per cent and that of other goods and services rose by 7 per cent. The vigorous expansion of consumption demand reflected the increase in disposable income (from the general increase in employment, wage increases, reduction in income taxes and increases in social security payments) and a marked increase in consumer credit.

Table 2. Netherlands: Volume of Domestic Consumption 1961-1962
(Index Numbers, 1953=100)

	<u>Total</u> <u>Consumption</u>	<u>Food, alcohol</u> <u>and tobacco</u>	<u>Durable</u> <u>goods</u>	<u>Other goods</u> <u>and services</u>
1961: March	147	136	184	133
June	141	129	177	132
Sept.	141	136	165	135
Dec.	164	161	199	142
1962: March	147	142	164	139
June	154	142	201	138
Sept.	148	139	183	139
Dec.	174	168	217	152

Source: Centraal Bureau voor de Statistiek

The important role played by foreign demand in the growth of output is demonstrated by the fact that export turnover increased faster than domestic turnover for about half the major branches of industry between the fourth quarters of 1961 and 1962. For all industries, however, export turnover rose by 4.4 per cent and domestic turnover by 6.2 per cent. (See Table 3.) The faster rise in total domestic turnover is primarily attributable to developments in the metal industry; domestic sales rose by almost 10 per cent, and export turnover by only 3 per cent

because of reduced export activity of the shipbuilding industry.

Table 3: Netherlands Domestic and Export Turnover in Selected Industries^{1/}

Percent Change Fourth Quarter 1961 to Fourth Quarter 1962

<u>Branch of Industry</u>	<u>Domestic Turnover</u>	<u>Export Turnover</u>	<u>Total</u>
Chemical industry	+8.8	+ 9.5	+8.9
Clothing	-0.6	12.6	+0.6
Metal industry, etc.	+9.8	+ 3.0	+7.1
Paper industry	+3.8	+ 0.5	+3.4
Textiles	--	+ 8.4	+2.9
Foodstuffs	+6.1	+ 1.4	+5.7
All Industries	+6.2	+ 4.4	+5.4

^{1/} Industries with more than fl 1½ billion turnover

Source: Centraal Bureau voor de Statistiek

Domestic investment demand remained sluggish. The latest figures, which are for the third quarter of 1962, indicate a decline in private plant and equipment expenditures. And the latest industry survey of the Central Bureau of Statistics indicates that investment demand has not picked up recently. While the order inflows (both from domestic and from foreign customers) have increased for consumption and for "other" goods, they have shown no improvement for investment goods. As deliveries exceeded the inflow of orders, order backlogs in all sectors were slightly reduced in the first quarter of 1963. (See Table 4.) Only public investment demand has continued to expand. Industrial construction is hampered by the supply difficulties experienced in the building sector.

Table 4: Netherlands: Order Backlog January 1961-March 1963^{1/}
 Orders in terms of months of production
 (January 1961=100)

<u>End of month</u>	<u>All industries excl. chemical industry</u>			<u>Consumer goods sector</u>			<u>Investment goods sector and all other</u>		
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
March	96	95	88	94	93	91	97	95	88
June	100	92		99	95		101	92	
September	98	89		93	93		99	88	
December	97	90		99	95		96	89	

^{1/} Based on a sample survey.

Source: Centraal Bureau voor de Statistiek: Conjunctuurtest, January 1963.

Construction remains main problem

The curtailment of building activity because of the severe cold early in the year means that it will be virtually impossible to reach the building goals set in the Economic Plan for 1963. The plan envisaged the building of 80,000 dwelling units, which are sorely needed, and the forced reduction in the number of dwellings to be completed during the year makes it most difficult to make more building permits available for industrial construction. The latter, in turn, is thought necessary to help stimulate investment demand for equipment.

Recognizing that the bottlenecks in the building sector constitute the Netherlands' main economic problem, the Government is releasing construction workers early from military service and allowing postponement of military duty for those currently called-up. In one of the quietest election campaigns that the Netherlands (where elections generally are quiet) has known in recent years, supporters of Premier

de Quay (Catholic Party) have admitted that the Government's housing policy has not been a success. However, a drastic change in policy is not likely.

Wage and price rises slowing down

The tight situation in the labor market has continued to ease slightly in recent months. (See Table 5.) This probably was to a large extent the result of the cold weather, as indicated by the relatively large fall in unemployment, after seasonal adjustment, between February and March. However, unemployment has remained slightly above, and the number of vacancies slightly below, year-ago levels since the Fall of 1962. But there still are more than three vacancies for each unemployed worker.

Table 5: Netherlands: Labor Market, 1961-March 1963
(in thousands, monthly averages or calendar month, seasonally adjusted)

	<u>Unemployment</u>	<u>Vacancies</u>		<u>Unemployment</u>	<u>Vacancies</u>
1961 I	32	109	1962 Oct.	32	118
II	31	118	Nov.	33	116
III	32	122	Dec.	31	118
IV	30	121	1963 Jan.	36	117
1962 I	28	123	Feb.	42	110
II	30	125	March	35	115
III	33	121			
IV	32	117			
1963 I	38	114			

Source: OECD

However slight the easing of the labor situation, it may have played a role in the recent moderation of wage increases. Average hourly wage rates continued to rise--they increased 2 per cent between the end of 1962 and February 1963 or 8 per cent on a year-to-year average--but the rise was mainly the result of higher Government pay scales. (See Table 6.) In January 1963, wage rates paid to women employees rose by 3 per cent for manual workers and by 5.5 per cent for other workers. Under present EEC provisions, women's wages must be raised to 90 per cent of rates paid to men for equal work by July 1, 1963.

Wage rates in private enterprises have risen only by about 1 per cent so far in 1963. Wage contracts recently concluded in such important sectors of industry as metal-working and printing have all remained within the average 2.7 per cent agreed upon as the allowable standard between the Government and the Labor Foundation. A proposed 4 per cent wage increase for farm workers coupled with a 2.3 per cent reduction in working hours is unlikely to be approved. In general, unions are currently no longer pressing for reductions in working hours but instead are making efforts to obtain an additional day of paid vacation. The Labor Foundation has not gone along with these demands in recent wage contract discussion but they will be given priority in next year's wage discussions.^{2/}

^{2/} For a description of the collective bargaining arrangements in the Netherlands, see op.cit., pages 6 to 10.

Table 6. Netherlands: Selected Wage and Price Indices, 1961 to February 1963
(Index numbers 1958=100, monthly averages and month)

		<u>Hourly Wage Rates</u>	<u>Wholesale Prices</u>	<u>Cost of Living</u>	<u>Export Prices</u>	<u>Import Prices</u>
1961	I	115	98	104	100	98
	II	116	97	104	98	96
	III	119	98	105	98	95
	IV	120	98	106	97	96
1962	I	125	98	107	98	95
	II	128	101	108	100	95
	III	130	97	109	96	94
	IV	133	98	109	98	94
	Oct.	132	97	109	97	94
	Nov.	133	98	109	98	93
	Dec.	133	99	110	98	94
	Jan.	135	100	111	99	a
	Feb.	135	a	a	a	a

a/ Not available.

Source: International Financial Statistics, Centraal Bureau voor de Statistiek.

While wage increases have moderated, productivity has again started to increase. During the first half of 1962, productivity remained virtually unchanged from the preceding year's level; but in both the third and fourth quarters of last year output per man increased more than 4 per cent as compared with the previous year. During 1962 the number of hours worked also stabilized.

As a result of these changes in productivity and production trends, pressures on profits and prices have also been moderating. Recent slight increases in consumer and wholesale prices reflect, in addition to the normal seasonal movement, scarcities resulting from the severe cold. The Minister of Economic Affairs in a recent statement in the Second Chamber of Parliament said that he was delighted with the cooperation given by the business sector to the Government's price policy. The most important principle of this policy is that wage increases should not be translated into higher prices.

Foreign trade expands

The increase in foreign demand produced a 2% rise in (seasonally-adjusted) exports in the fourth quarter but there was no further advance in the first quarter of 1963 because of a sharp fall in exports in January. By March exports had again risen 6 per cent above the end of 1962 level, indicating that the fall in January probably was caused by special factors, such as the cold weather and possibly the U. S. dockstrike.

Table 7. Netherlands: Merchandise Trade, 1961 - March 1963
(Million U.S. dollars, monthly averages, seasonally adjusted)

	<u>Exports, f.o.b.</u>	<u>Imports, c.i.f.</u>	<u>Balance</u>	<u>Exports as % of Imports</u>
1961 I	365	430	-65	84.9
II	352	419	-67	84.0
III	366	420	-54	87.1
IV	357	440	-83	81.1
1962 I	375	453	-78	82.8
II	390	442	-52	88.2
III	379	449	-70	84.4
IV	386	442	-56	87.3
1963 I	385	464	-79	83.0
1962 Oct.	414	441	-27	93.9
Nov.	364	459	-95	79.3
Dec.	381	426	-45	89.4
1960 Jan.	347	450	-103	77.1
Feb.	404	478	-75	84.5
Mar.	405	464	-59	87.3

Source: OECD

Imports, which had fallen slightly in the fourth quarter, recovered during the first two months of 1963, rising a total of 5 per cent between the fourth quarter of 1962 and the first quarter of this year. On a year-to-year basis, first quarter imports rose by just over 2 per cent and first quarter exports by just under 3 per cent.

Fourth quarter balance of payments results

The unexpectedly good fourth quarter trade results produced a much reduced deficit on merchandise account in the balance of payments. On a cash basis, the trade deficit dropped to fl 68 million from fl 312 million in the third quarter. (See Table 8.) This improvement, coupled with small increases in investment income and service receipts, resulted in a fl 540 million current account surplus, which was twice the surplus registered in the third quarter and four times that recorded in the last quarter of 1961. The fourth-quarter performance considerably improved the payments results for 1962 as a whole. On a cash basis, the over-all surplus amounted to fl 621 million, and on a transaction basis to fl 646 million, very close to the fl 700 million level which had been initially predicted in the Economic Plan for 1961. After the disappointing current account deficits recorded in the first half of 1962, the Central Planning Bureau had expected a surplus of less than fl 350 million for the year.

Table 8: Netherlands: Balance of Payments 1961-1962 ^{1/}
(million Dutch guilders)

	1961	1962 ^{a/}	1962		
			IV	III	IVa/
1. Goods and Services					
Merchandise	-1,284	-1,189	-405	-312	-68
Investment income	615	394	171	182	215
Other services	1,532	1,416	370	351	393
Total	<u>863</u>	<u>621</u>	<u>136</u>	<u>221</u>	<u>540</u>
2. Private Capital					
Transactions in domestic securities	658	747	150	221	100
Transactions in foreign securities	- 765	- 374	-167	-162	-112
Direct investment	- 256	- 126	-117	- 81	-105
Long-term credits	- 126	- 542	- 6	- 65	-310
Other	161	57	- 7	23	-101
Total	<u>- 328</u>	<u>- 352</u>	<u>-147</u>	<u>- 64</u>	<u>-528</u>
3. Commercial Banks Capital					
Long-term	- 210	- 143	31	-102	- 40
Short-term	- 273	- 16	119	-102	68
Total	<u>- 483</u>	<u>- 159</u>	<u>150</u>	<u>-204</u>	<u>28</u>
4. Official Payments					
Debt repayments	- 277	- 197	- 30	- 11	-129
Other	- 104	- 90	- 14	- 14	- 21
Total	<u>- 381</u>	<u>- 287</u>	<u>- 44</u>	<u>- 25</u>	<u>-150</u>
Surplus or Deficit (-)	<u>- 329</u>	<u>- 177</u>	<u>95</u>	<u>- 72</u>	<u>-110</u>
Financed by:					
Change in IMF position (increase-)	- 442	145	- 43	91	--
Former EPU credits, etc. (receipts-)	- 39	18	13	9	1
Increase or decrease (+)					
gold stock	- 474	4	2	3	- 3
foreign exchange central bank	673	90	45	27	154
foreign exchange commercial banks	611	108	-112	- 58	- 42
Total	<u>329</u>	<u>177</u>	<u>- 95</u>	<u>72</u>	<u>110</u>

^{1/} Data are shown on a cash rather than a transactions basis. This affects primarily the current account balance and the commercial banks capital flows. ^{a/} Preliminary.
Source: Netherlands Ministry of Finance.

The fourth quarter surplus on current account was more than offset by outflows on capital account and official payments. Purchases of foreign securities about equalled purchases of Dutch securities by foreigners, but the repayment of a credit extended to KLM by a consortium of U.S. banks increased the outflow of long-term funds considerably. A fl 109 million prepayment on a Canadian loan accounted for most of the increase in official payments. As banks did not borrow as much abroad as in the preceding year, the offsetting inflow of commercial bank funds was almost negligible. As a result, an over-all deficit of fl 110 million was recorded for the fourth quarter. The deficit was financed entirely by a reduction in the foreign exchange balances held by the Central Bank; commercial banks actually increased their foreign exchange holdings.

For the year 1962, the over-all deficit of fl 177 million was little more than half that recorded in 1961. The lower current account surplus was the result of decreased investment income and lower earnings on service account, primarily for transportation services. This reduction was more than offset by smaller outflows from the commercial banks and smaller loan repayments by the Government. The 1962 deficit was financed primarily by a reduction in IMF drawing rights. Total foreign exchange holdings were reduced very slightly, with the commercial banks reducing and the Central Bank increasing its holdings of foreign exchange.

In recent months the Netherlands Central Bank has continued to increase its foreign exchange holdings. These rose by fl 81 million between the end of 1962 and the second week in May. The commercial banks, on the other hand, are reported to have continued to decrease their holdings of foreign exchange, primarily because of a recent tightening of bank liquidity.

The favorable external position of the Netherlands and the repatriation of funds by the commercial banks have created a strong demand for guilders on the foreign exchange markets. Since mid-March, the guilder had been traded at or just

below the guilder ceiling (dollar floor) of 27.84 cents at which the Central Bank is committed to intervene by buying dollars. (See Table 9).

Table 9. Netherlands Exchange Rate in U.S. cents per guilder ^{1/}
October 1962-May 1963.

<u>Month</u>	<u>Monthly Average</u>	<u>Week Ending</u>	<u>End of Week</u>
	Par Value	27.624	
	Lower Limit	27.42	
	Upper Limit	27.84	
1962 October	27.748	March 1	27.767
November	27.748	8	27.783
December	27.779	15	27.833
		22	27.828
1963 January	27.772	29	27.828
February	27.773	April 5	27.830
March	27.808	12	27.828
April	27.828	19	27.828
		26	27.825
		May 3	27.828
		10	27.813

^{1/} Noon buying rates
Source: Federal Reserve Board

Tightening of money market

Between the end of January and mid-March conditions on the Netherlands money market had been relatively easy and the official call money rate was at 1.00 per cent in February. (See Table 10.) Around mid-March a tightening became noticeable in the money market and banks turned in foreign exchange to the Central Bank in order to maintain their required cash reserves. To ease the banks' cash position over Easter, the Central Bank lowered the required cash reserve ratio from 5 per cent to 4 per cent for the reserve period March 22-April 21 and gave the banks an opportunity to deposit Treasury notes in lieu of cash with the Central Bank. These Treasury notes had to be repurchased by April 19th. The banks took advantage of this opportunity to an amount of about fl 250 million. As a result, short-term money again was easily available and call-money rates were lowered to 1.00 per cent in mid-April.

Table 10. Netherlands: Short-term interest rates Oct. 1962-April 1963
(per cent per year)

<u>Monthly average</u>	<u>Official Call money rate</u>	<u>Three months Treasury bills rate</u>	<u>Government Bond Yield</u>
1962 Oct.	1.50	1.96	4.39
Nov.	1.47	1.85	4.37
Dec.	1.24	1.98	4.37
1963 Jan.	1.66	1.93	4.37
Feb.	1.00	1.68	4.33
Mar.	1.29	1.88	4.31
<u>Week ending</u>			
March 1	1.00	1.63	4.31
15	1.50	2.03	4.29
29	1.25	1.81	4.28
April 12	1.00	2.00	4.27
26	2.50	2.13	4.28
May 3	2.50	2.13	4.27
10	1.75	2.00	4.29

a/ not available

Source: OECD; Netherlands Central Bank

By April 26, however, the rate had been pushed up to 2.50 per cent. Seasonal cash needs and several purely temporary money-market factors produced the unexpected tightness. Capital subscriptions of fl 175 million to a new Dutch company to transport and sell natural gas produced in the new fields in the North of the Netherlands which were paid in after April 6 ^{3/} did not remain in the market as had been anticipated but seems to have disappeared largely into the Treasury balance at the central bank. Between April 1 and 22, in fact, the Treasury balance increased by fl 447 million as a result of the Gasunie money and the earlier purchases of Treasury notes by the commercial banks. By mid-April the tightening of the money market was in full swing.

During this period, the banks were repatriating foreign balances to ease their liquidity difficulties. A Treasury payment of fl 400 million to local governments at the end of April was also expected to ease market conditions. Nonetheless, the monetary authorities decided not to increase the cash reserve ratio for the new reserve period, April 22 to May 21. This decision may have reflected disappointment that the commercial banks had been forced to repatriate funds from abroad. It was precisely to avoid this return flow, with its attendant unsettling of the foreign exchange markets, that prompted the monetary authorities to lower the cash reserve ratio and to accept Treasury notes in lieu of cash in anticipation of the Easter requirements.

Netherlands indebtedness to the U.S.

Debts owed by the Netherlands to the U.S. Government were reduced by \$12.8 million during 1962. Of this amount \$7.8 million was paid in the first half of the year and \$5 million in the second half. In the preceding year, when the Netherlands made some prepayments on their debt, the amount outstanding

and Dutch balance of payments.

^{3/} The company, the N.V. Nederlandse Gasunie, is controlled by the Royal Dutch State Mines, Royal Dutch Shell and Standard Oil of New Jersey.

had been reduced by \$52.2 million.

Table 11. Netherlands: Indebtedness to the U.S. Government
(In millions of U.S. dollars)

Debt outstanding as of:	<u>Dec. 1960</u>	<u>Dec. 1961</u>	<u>June 1962</u>	<u>Dec. 1962</u>
Export-Import Bank Loans	41.9	23.6	22.8	21.9
"American Aid" Country Program Loans <u>1/</u>	139.8	117.9	116.7	115.6
Grants converted into Credits	19.5	10.7	5.1	2.1
Other	<u>4.1</u>	<u>1.0</u>	<u>.8</u>	<u>.8</u>
Total	<u>205.4</u> _M	<u>153.2</u>	<u>145.4</u>	<u>140.4</u>

1/ Formerly known as Mutual Security Program

Source: Office of Business Economics, U.S. Department of Commerce.

Indebtedness to commercial banks was also reduced. Dutch short-term liabilities decreased by \$27 million in 1962, but rose again by \$19 million, to a total of \$36 million during the first two months of 1963. Long-term liabilities were negligible. In addition non-financial institutions reported claims on Dutch customers amounting to \$37 million in September 1962, the latest date for which information is available.