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Economic Developments in Sweden
January-May 1963 11 pages

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Economic Developments in Sweden: January-May 1963

Summary

Recent encouraging signs of an improvement in the Swedish economic scene suggest that the downward cyclical movement which characterized the economy this fall and winter is now ending. ^{1/} These favorable developments have prompted a moderate upward revision in the latest (April 1963) official forecast for 1963. More recently, the authorities have begun to move to reverse the liberal credit and fiscal regime pursued into the early part of this year and are now adopting more restrictive monetary policies for the months ahead.

Although Swedish industrial output increased only slightly in the first four months of this year the economy appears to have emerged from the exceptionally severe winter considerably improved in tone. Prospects for some key exports - especially in the forest products sector - are now quite promising; and despite divergent trends in some important branches of Swedish industry, the condition of order books in the engineering industry and in Swedish shipyards suggest that the period of inventory buildup in the recent cyclical downturn is ending. Renewed optimism rests in part on continued strength in consumer goods sectors. Following a mid-January reduction in discount rate, progressively less easy conditions began to develop in Swedish credit markets. This spring the reduction in commercial bank liquidity which is typical of the seasonal excess of budget revenue has been accentuated by a decline in Sweden's foreign exchange reserves, ending an unusual two-year period of fairly persistent reserve gains.

^{1/} For the preceding review of Swedish business conditions, see "Economic Developments in Sweden in 1962 and early 1963," March 11, 1963.

In March, and again in May, rates on short-term Treasury paper were adjusted upward by about 1-1/2 per cent; the Bank of Sweden also recently fixed the interest rate on five-day advances to commercial banks at a level one per cent above the official discount rate instead of, as was usual, reserving this level as a penalty rate for extensions of such short-term advances to the banking sector. These restrictive moves culminated in an increase on June 14 of from 3-1/2 to 4 per cent in the discount rate of the Bank of Sweden. The action brought to a close a fairly sustained period of monetary ease, which lasted through most of last year and which witnessed three discount rate reductions, the most recent of which was on January 18.

The recent improvement in Swedish economic developments has also been accompanied by an apparent easing of the government's anti-recession programs. In any event, the authorities have not taken any new steps to stimulate demand and have, in fact, acted to discontinue some anticyclical programs and stretch out others. Many public works are being wound up, and authority of private firms to spend investment funds expired at the end of April. Recent revised estimates also indicate that the Swedish budget will exert a less expansionary effect than was originally supposed.

Because exports were severely hampered - especially in February - by unusual ice-bound conditions in Swedish ports, and because imports have continued at high levels, Sweden's trade deficit almost doubled - from SKr. 524 to SKr. 903 million - in the first four months of this year. The steady two-year buildup in Swedish exchange reserves halted in October. In the first five months of 1963, gold and foreign exchange holdings dropped by \$99 million, reversing almost entirely the \$110 reserve gain recorded in the whole of 1962.

Official business forecasts revised upward

Between November 1962 and April of this year (the dates of the most recent national budget forecasts prepared by the Business Cycle Research Institute) economic developments have led to a more optimistic, though still cautious, reappraisal of Swedish business prospects. Anticipated changes in economic aggregates are admittedly not very large, but they have all been revised upward since the Institute's survey last fall.

The current outlook is for somewhat larger increases than originally anticipated in production, investment and consumption and in gross national product. As shown in Table 1, Swedish GNP is expected to increase by 4.5 per cent in real terms, as compared with an earlier forecast of a 3.5 per cent rise. The volume of investments, expected to increase by 4.5 per cent, reflects a slight upward revision of earlier forecasts. But the upward adjustment refers exclusively to housing construction. Other investment in the public sector will also continue to increase. Although private investment is expected to decline, the anticipated drop of 6 per cent (by comparison with 1962 results) represents a more favorable appraisal of the earlier survey, which forecast a decline of 8 per cent in private investment outlays this year. Based on a 7 per cent increase in disposable income, private consumption will rise by 4 per cent. Consumer prices will edge further upward - by 2-1/2 per cent, or perhaps by a shade more-- as compared with an increase of 5 per cent last year.

As before, the official forecasts of Swedish foreign trade developments may prove to be the most tenuous part of the official prognosis. The inventory cycle in raw materials should favor Swedish exports and prospects for some key

Table 1. Sweden: Estimated Balance of Resources, 1962-63

<u>Item</u>	<u>1962</u> (mill. SKr.)	<u>Forecast</u> <u>1963</u> (mill. SKr.)	<u>a/</u> <u>Per cent</u> <u>change</u>
<u>Supply</u>			
Gross national product	81,600	∕ 3,500	∕ 4.5
Imports, c.i.f.	16,100	∕ 650	∕ 4.0
Total supply	97,700	∕ 4,150	∕ 4.0
<u>Demand</u>			
Private consumption	44,200	∕ 1,800	∕ 4.0
Public consumption	10,900	∕ 600	∕ 5.5
Private investment	15,300	∕ 250	∕ 1.5
Public investment	10,600	∕ 850	∕ 8.0
Inventory change	600	- 400	-
Exports and net services	16,100	∕ 1,050	∕ 6.5
Total demand	97,700	∕ 4,150	∕ 4.0

a/ In constant prices.

Source: Konjunkturläget, April 1963.

exports, especially forest products, are now quite promising - but Swedish sales abroad may also be hampered by the moderated pace of investment activity elsewhere as well as by the more limited import potential of primary producing countries. Swedish exports are now expected to rise in value by about 6-1/2 per cent - compared with the 8-1/2 per cent increase last year. Average export prices are expected to decline by 1 per cent.

The anticipated rise of about 4 per cent in Swedish imports rests on the assumption that total demand will increase by about the same in 1963 as in 1962: reductions due to the falling off in the pace of investment and a cessation (or reduction) in inventory buildup are expected to offset heavier purchases of consumption goods from abroad.

On the basis of these calculations, Sweden's over-all balance of payments is expected to show a moderate turnaround from a deficit of SKr. 47 million (\$9.1 million) in 1962 to a surplus of SKr. 67 million (\$12.9 million) this year. No attempt has been made by the Business Cycle Research Institute to estimate changes in the residual item and in Sweden's gold and foreign exchange reserves. Both these items were important in 1961 and 1962. The positive errors and omissions category in Sweden's balance of payments amounted to SKr. 866 million in 1961 and to SKr. 624 million in 1962; the exchange reserves rose by SKr. 902 million in 1961 and SKr. 571 million in 1962.

Output trends, though mixed, encourage optimistic expectations

The Swedish economy seems to have emerged from the exceptionally severe winter in a considerably improved tone. On a seasonally adjusted basis, industrial production increased by about 2 per cent in January-March this year, and registered a further

encouraging advance--by 3 per cent--in April. The sector breakdown--which is not seasonally adjusted--shows that between March 1962 and March 1963 consumer goods output rose by 7 per cent while producer goods output fell by about 2 per cent. Within the first quarter over-all production increase of 2 per cent, the largest advances were registered for foodstuffs (up 12 per cent) and pulp manufacturing (an increase of 10 per cent).

A considerable variation is observable in developments among some industrial sectors, and even within some individual branches. On balance, industrial production is now expected to develop favorably in the second quarter, partly under the impetus of a resumption of expansion in output of building materials, higher levels of activity in the forest industries and in Swedish shipyards (which have recently received large new Norwegian and Soviet orders), and continued expansion in many branches serving the consumer sector.

At the same time, some branches appear to be marking time, with prospects for favorable change quite unclear at this moment. Again, on balance, some weaknesses--such as in the engineering sector, where demand, production and unemployment vary widely among individual enterprises--are not expected to offset the general upward tendency in industrial output in the near-term future. But output in the iron ore and in the primary metals branches appears to have stagnated since the beginning of last year; employment in these sectors is expected to continue to drop, as it did in 1962. A brighter aspect of developments in the engineering and metals branches is the more favorable development of export orders in recent months, and indications that inventory buildup is coming to an end.

There have been no significant wage and price developments in the period under review. Unemployment has declined steadily since the turn of the year but so far labor shortages which typically accompany a renewal of business expansion do not

seem to have developed. Under the influence of earlier increases in wage costs, prices have edged up further in recent months, but by less than in 1962: between December and May consumer prices advanced by 2 per cent and wholesale prices by 1.3 per cent.

Easy credit conditions replaced by restrictive monetary policies

The favorable development of business conditions and the generally satisfactory levels of activity and employment have undoubtedly been strongly influenced--as they were throughout most of last year--by the application of a combination of liberal credit and fiscal policies. At present the most important indication of a change in the cyclical situation is the move in the direction of more restrictive monetary policies, while anticyclical fiscal programs have also recently been very much less expansionary. It is apparent, however, that--as they did about one year ago when signs of recession began to multiply--the authorities are moving relatively early to prepare the ground for the type of anticyclical programs which would be appropriate should a genuine upturn come about in the period ahead.

Through the early part of 1963 the authorities continued a generally easy monetary and credit policy. In mid-January the central bank discount rate was reduced, the third time within a year. Thereafter, progressively less easy conditions began to be manifest on the Swedish credit market, in conjunction with a continued rapid expansion of commercial bank loans and advances and an accentuation of the reduction in bank liquidity which is typical at this time of year.

Commercial bank liquidity usually contracts during the first six months of each year, when there is an excess of tax revenues over budget outlays. Last year especially, this seasonal effect was largely offset by the continued buildup in foreign exchange reserves. The easier credit conditions which the authorities continued to promote through early 1963 encouraged a continued high level of commercial

bank lending. In recent months, however, the quite substantial expansion in bank credit, together with the reduction in bank liquidity as exchange reserves declined, have led the authorities to adopt progressively tighter monetary measures.

Late in March the Swedish National Debt Office raised the interest rate on short-term Treasury paper by about one-half per cent; in mid-May, rates were adjusted further upward by roughly 1 per cent. In between these moves, the Bank of Sweden established its rate for five-day advances to the commercial banks at a level 1 per cent higher than the official discount rate--which was at 3-1/2 per cent after the reduction on January 18. The Bank's rate on these advances has generally been at the level of the discount rate, with the 1 per cent increase usually applied to extensions of these short-term advances to the banks. In raising the rate on its loans, the Bank signalled its intention of reinforcing the liquidity squeeze, since that development had already significantly increased commercial bank recourse to advances from the central bank. In addition, the authorities have used debt management policies in conjunction with these credit tightening measures by tailoring recent new issues to appeal to banks for investment purposes.

These moves took place against a background of a continuation of the rising trend of commercial bank lending--which increased by 7.2 per cent in the first four months of this year, as compared with a rise of 3.2 per cent in January-April 1962--and culminated in an increase, effective on June 14, of from 3-1/2 to 4 per cent in the Bank of Sweden's discount rate.

Authorities modify expansionary fiscal programs

In view of continued improvement in the Swedish economic climate in recent months, the authorities have not taken any new steps to stimulate demand. In fact, the government has moved to discontinue some anticyclical programs and stretch out

others. Thus, many public works projects are being wound up, and authority to spend investment funds expired at the end of April. In a related move the Finance Minister announced in mid-May that measures were being taken to prevent overheating in the building sector--in which activity has continued at high levels--by preventing large wage adjustments outside collective agreements. In order to keep building trends within limits which would not exert upward pressure on the general level of costs, a reduction in relief work which would release about 10,000 workers to the building sector this summer has been announced.

Finally, revised estimates indicate that the budget will exert a less expansionary effect than was originally supposed. The surplus for the fiscal year ending June 30, 1964, is currently estimated at SKr. 204 million (\$39 million), as compared with the estimate of SKr. 95 million (\$18 million) contained in the budget presented to the Swedish Parliament in January. The revised budget estimates reflect greater optimism about Swedish economic developments. On the other hand, the financing of capital expenditure in the coming fiscal year will require SKr. 1.1 billion in loans, which represents an increase of SKr. 900 million over the figure estimated for fiscal 1963.

Trade deficit widens as imports rise

Continued high levels of domestic consumption and the apparent recovery in the industrial picture were reflected in a sustained high level of Swedish imports through April this year. Imports totalled SKr. 5,551 million in the first four months and the rise--by 5.3 per cent--was not much below the increase of 6 per cent recorded in 1962. Swedish exports were somewhat hampered by unusually prolonged ice-bound conditions in some ports this winter--and fell off rather noticeably in February--but shipments appear to have recovered satisfactorily by April. For the first four months,

Table 2. Sweden: Foreign Trade, January-April 1962-63

<u>Period</u>		<u>Exports</u> (millions of Swedish kronor)	<u>Imports</u> (millions of Swedish kronor)	<u>Trade Deficit (-) or Surplus (+)</u> (million \$)	
1962	Jan.	1,252	1,415	-163	-31.4
	Feb.	1,147	1,220	- 93	-17.9
	Mar.	1,155	1,448	-292	-56.3
	April	1,216	1,191	+ 25	+ 4.8
1963	Jan.	1,370	1,476	-106	-20.4
	Feb.	966	1,212	-245	-47.2
	Mar.	1,077	1,337	-260	-50.1
	April	1,234	1,527	-293	-56.5
Compare:					
	Jan. - Apr. 1962	4,746	5,270	-524	-101.0
	Jan. - Apr. 1963	4,648	5,551	-903	-174.0

Sources: Monthly Digest of Swedish Statistics, April 1963;
Bank of Sweden, Ur Tidningarna, June 13, 1963; data are not
seasonally adjusted.

Table 3. Sweden: Net Reserve Position, 1961-62

		<u>Riksbank</u> (in millions of Swedish kronor)	<u>Commercial Banks</u> (in millions of Swedish kronor)	<u>Total</u> (in millions of Swedish kronor)	<u>Change</u> (millions of kronor) (millions of dollars)	
1961	Dec.	3,318	472	3,790	--	--
1962	Mar.	3,436	495	3,931	+141	+27
	June	3,701	474	4,175	+244	+47
	Sept.	3,842	511	4,353	+178	+34
	Dec.	3,869	492	4,361	+ 8	+ 2
1963	Mar.	3,872	147	4,019	-342	-66
	April	3,777	84	3,861	-158	-30
	May	3,766	82	3,848	- 13	- 3

Sources: Monthly Digest of Swedish Statistics, April 1963;
Bank of Sweden, Ur Tidningarna, various issues.

however, total exports, at SKr. 4,648 million, were down about 2 per cent from January-April last year.

These divergent foreign trade trends were reflected in a significant widening of Sweden's foreign trade deficit, from SKr. 524 million in the first four months of 1962 to SKr. 903 million in January-April this year. (See Table 2.)

Reserves decline after two-year buildup

The buildup in Swedish foreign exchange reserves, which was so prominent a feature of monetary developments in 1961-62, slowed down appreciably after mid-year and came to an abrupt halt after reaching a peak level of SKr. 4.4 billion (\$850 million) at the end of last October. Combined gold and foreign exchange holdings of the Bank of Sweden and the commercial banks declined thereafter, and amounted to SKr. 3.8 billion (\$740 million) at the end of May. (See Table 3.) At this level, exchange reserves were virtually the same as at the end of January 1962, which means that almost all of the gain in Swedish reserves last year has been given up. In the first five months of this year reserves dropped by \$99 million, as compared with increases amounted to \$80 million and \$62 million in January-May of 1961 and 1962, respectively. The greater part of the recent reserve loss, as shown in Table 3, occurred in holdings of the Swedish commercial banks.