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Recent Economic Developments in the
Netherlands, Second Quarter, 1963

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Summary

With industrial output leveling out in the Dutch economy in the second quarter, the Dutch authorities have recently revised downward to 3 per cent their earlier estimate of an increase of 4-1/2 per cent in gross national product in 1963. In 1962, Dutch GNP rose only 2.3 per cent.

Although exports expanded further in April and May, industrial production fell slightly below the February-March levels. Wage and price advances continued to moderate.

The leveling out of industrial output and the lowered estimates of economic growth in 1963 have been officially attributed to a balancing of expansionary and weakening factors within the Dutch economy. In part, the revisions were necessary because of the unlikelihood that the drop in building output caused by the severe winter would be made up. The main expansionary factors at present, as they were in the first quarter,^{1/} are found in export and private consumption demand and in some inventory build-up.

Price and wage advances continued to moderate in the second quarter even though the labor market tightened and the ratio of vacancies to the number of unemployed was up to about 4 to 1 in May. The new collective bargaining agreements approved during the first half of this year brought average wage and fringe benefits of 3.4 per cent to nearly one million workers, thus exceeding significantly the 2.7 per cent target set by the Dutch authorities.

^{1/} See "Recent Economic Developments in the Netherlands, December 1962-April 1963," dated May 21, 1963.

On the international side, favorable trends in export demand were reflected in a substantial reduction in the trade deficit in the first quarter of this year. The improvement continued in April and May, when exports rose vigorously while imports increased more slowly. As a result, the export/import ratio rose from 77 per cent in January to 89 per cent in May.

The first quarter current account surplus of fl 23 million--the result primarily of the much lower trade deficit--was more than sufficient to offset the rather large capital outflow recorded in this period. The favorable current account, as well as brisk foreign demand for Dutch securities (especially in May) also worked to strengthen the guilder in foreign exchange markets. A period of temporary money market tightness in mid-July, which caused banks to repatriate foreign funds, probably also contributed to the strong position of the guilder. As the market later eased, banks began to export funds and guilder quotations declined slightly. The public authorities continued to be active borrowers in the capital market. For this reason, foreign issues are not currently being admitted to the Dutch capital market.

Output and demand leveling off

Industrial output in the Netherlands leveled off during April and May in contrast to the vigorous expansion registered in the other Common Market countries after the effects of the harsh winter had worn off. On the other hand, during the bad winter the Dutch seasonally adjusted industrial production index (see Table 1) had not fallen as much as it had in other countries.

Making allowances for the winter, the underlying trend in output in the Netherlands has been fairly stable, with perhaps a minor rise between

Table 1: Netherlands: Industrial Production¹/1962-February 1963
(Index numbers, 1953=100, seasonally adjusted,
monthly averages)

1962		1963	
I	166	Jan.	167
II	165	Feb.	173
III	163	March	171
IV	168	April	170
<u>1963 I</u>	<u>170</u>	May	170

1/ Excluding Building

Source: OECD, Centraal Bureau voor de Statistiek

Table 2: Netherlands: Order Backlog 1961 - May 1963¹/
(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>
February	100	96	90	93	95	90	101	97	90
May	103	94	89	101	96	97	103	94	88
August	99	90		92	89		100	90	
November	97	93		103	99		96	92	

1/ Based on a sample survey.

Source: Centraal Bureau voor de Statistiek

October and February and a flattening out from March to May. Recent monthly figures reflect the balancing of expansionary and weakening factors, according to a recent speech of ex-Finance Minister Zijlstra.

Industrial output for April and May was 3.3 per cent above the corresponding months in 1962. The monthly survey conducted by the Central Bureau of Statistics showed that average daily production was up slightly in May and was expected to rise further in June.

This survey also showed that orders were stable in April. An increase in the consumer goods sector was offset by a decline in the investment goods sector (see Table 2). In May the inflow of orders turned up and increases were recorded in all sectors. For June no great changes were expected in the order position. As in Germany, new foreign orders (except for investment goods) were better sustained and showed more strength than did domestic orders.

In the domestic economy, private consumption expenditures were the main expansionary factor. During the first quarter of 1963 they were up 9.4 per cent in value and 6.2 per cent in volume as compared with the first quarter of 1962.

Cutbacks in total demand estimates for 1963

Revised estimates of the Central Planning Bureau show a slower growth in total final demand for 1963 than was first estimated in the Economic Plan for 1963.^{2/} The Plan had projected a 4.5 per cent increase in real GNP but only a 3 per cent increase is now expected, compared to an actual 2.3 per cent rise in 1962. (See Table 3.) The downward revision results from difficulties in making up the output lost in the building industry during the severe winter.

^{2/} See "Recent Economic Developments in the Netherlands, October 1962 to January 1963."

Table 3. Netherlands: Changes in Gross National Product 1961-1963
(In real terms, per cent change from preceding year)

	<u>1961</u>	<u>1962</u> ^{1/}	<u>1963</u> ^{2/}
Private consumption	4.4	4.5	4.0
Public consumption	3.0	4.1	1.6
Gross investment			
Fixed investment of enterprises ^{3/}	5.8	2.8	-3.0
Public investment	11.2	5.6	3.0
Exports of goods and services	4.0	5.4	6.0
Less: imports	<u>7.5</u>	<u>6.4</u>	<u>5.5</u>
Total GNP	<u>2.6</u>	<u>2.3</u>	<u>3.0</u>

^{1/} Preliminary
^{2/} Estimated
^{3/} Includes public enterprises
Source: Central Planning Bureau

Table 4. Netherlands: Labor Market, 1961-May 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 March	29	124
II	31	118	April	29	124
III	32	122	May	31	125
IV	30	121	1963 Jan.	36	117
1962 I	28	123	Feb.	42	110
II	30	125	March	35	115
III	33	121	April	29	118
IV	32	117	May	31	122
1963 I	38	114			

Source: OECD

During 1963, exports (rising by 6 per cent) will grow faster than in 1962 and imports (up 5.5 per cent) will grow more slowly. In addition, a large upward change in inventory accumulation is being projected. On the other hand, other investment and consumption demand (both private and public) are expected to grow more slowly than in 1962.

Productivity is expected to increase by 1.5 per cent and the labor force also by 1.5 per cent. Thus, a growth of 3 per cent in the output of private enterprises is expected. Consumer prices are forecast to rise at the same 2.5 per cent rate as in 1962.

The Central Planning Bureau has also published a note on long-term growth for 1963-67. An estimated growth in gross national product of about 4 per cent a year (which is a faster growth than was achieved in the early sixties) is assumed on the basis of an increase in productivity of 2.5 per cent per annum. Achievement of this rate of growth will necessitate the establishment of social and economic priorities. The Bureau estimates that projected social welfare spending will be about six times as large as the resources currently available for these purposes. Thus, the government faces a difficult decision of raising tax revenues or of borrowing to finance these expenditures.

In a policy statement on July 30, Premier Marijnen said that the new Government, which was finally constituted after a two months delay (not at all unusual in Dutch politics), will follow basically the same economic policies as its predecessor.

Labor market: tightens again

Over the spring months, the labor market tightened again. Seasonally-adjusted unemployment, which had risen in January and February, mainly because

building had come to a virtual standstill, started to fall in March and was further reduced in April (see Table 4). It rose very slightly again in May, but job vacancies also continued to rise. The ratio of vacancies to number of unemployed was up to about 4 to 1 in May.

The major bottleneck continues to be the building trades where demand (especially after the enforced winter pause) is vastly outrunning capacity. The building trades have been able to attract labor from other sectors, primarily by paying "black wages" (that is, rates above the negotiated ones permitted by the Government under its wage policy). In some instances, "black wages" are reported to amount to as much as 150 per cent of negotiated wages. But even these higher rates apparently are not sufficient. The labor difficulties in building in Holland are increased by the fact that Germany has been attracting skilled Dutch construction workers at higher wages.

Outside construction, slight relaxations of the strains on the labor market have become noticeable. In part, this is due to the fact that in 1963 some 70,000 workers will enter the labor market while requirements are placed at only 55,000, according to Central Planning Bureau estimates. The market remains tight for the moment and active foreign recruitment is continuing and has even spread to Turkey.

Wages and prices advances continue to moderate

New collective wage agreements approved during the first half of 1963 brought average increases in wages and fringe benefits of 3.4 per cent to about 950,000 workers. This increase was somewhat more than the admissible rate of 2.7 per cent estimated by the Central Planning Bureau and endorsed by the Social and Economic Council, but this difference--though sizeable to a foreign observer--

is not considered to be significant by the Dutch authorities. Nurses, midwives and public library personnel received the highest increases of 6.7 per cent, partly to make up for arrears in their wages. Farm workers and journalists were also given above-average increases. Most other contracts were very close to the 2.7 per cent level, (the mineworkers received 3 per cent and inland shipping workers 1.5 per cent). The wage rate index, after rising slightly in January, has been stable through April, the latest month for which data are available. (See Table 5.)

With wage advances more moderate, cost pressures on prices are also decreasing. Productivity, after falling more than seasonally during the severe winter, has been increasing. The monthly industry survey of the Central Bureau of Statistics in recent months has shown that average daily production has increased. In addition, price increases due to the winter are being rolled back. Consequently, wholesale prices have fallen by 2 per cent since January, and finished products by 1 per cent; export prices rose 2 per cent in February but fell back 1 per cent in March. Consumer prices, while continuing to rise in February, fell back in April. They probably were steady in May, but a further seasonal increase for food is reported for June.

Exports continue to expand

Both exports and imports had been impeded by the frost early in the year, but exports had been affected more severely (See Table 6). Accordingly, in January the ratio of exports to imports had fallen to a low 77.1 per cent. But foreign trade picked up vigorously in the spring and exports by May 1963 had risen 14 per cent over the fourth quarter (1962) level. Imports rose by only 6 per cent over this period. As a result, the cover percentage of exports over imports rose to 89.2 per cent in May.

Table 5. Netherlands: Selected Wage and Price Indices, Third Quarter 1961 to April 1963
(Index numbers 1938=100; monthly averages and month)

		<u>Hourly Wage Rates</u>	<u>Wholesale Prices</u>	<u>Finished Products</u>	<u>Cost of Living</u>	<u>Export Prices</u>	<u>Import Prices</u>
1961	III	119	98	100	105	98	95
	IV	120	98	100	106	97	96
1962	I	125	98	100	107	98	95
	II	128	101	100	108	100	95
	III	130	98	100	109	96	94
	IV	133	98	101	109	98	94
1963	I	137	100	101	113	100	a/
	Jan.	136	101	102	111	99	a/
	Feb.	137	100	101	114	101	a/
	March	137	100	101	114	100	a/
	April	137	99	101	112	a/	a/

a/ Not available.

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

Table 6. 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
1960 Jan.	347	450	-103	77.1
Feb.	404	478	-75	84.5
Mar.	404	464	-60	87.3
April	427	500	-73	85.4
May	439	492	-53	89.2

Source: OECD

The June export performance is reported to have been slightly less favorable, but some exports may have been deferred in expectation of the July 1 EEC internal tariff cuts, which should have a favorable influence on the Netherlands intra-EEC trade. The fact that the Netherlands also raised some external tariffs on July 1, while France and Italy lowered theirs, is expected to be favorable to the over-all Dutch competitive position, since Germany and Belgium-Luxembourg also had to raise their tariffs.

With the resumption of relations with Indonesia, it is hoped that trade relations will also be resumed shortly. On July 15, the Indonesian Foreign Exchange Institute revoked the regulations banning trade between the Netherlands and Indonesia. This development followed the visit of an Indonesian trade mission to the Netherlands in May and that of a Dutch economic mission to Indonesia on July 14.

First-quarter balance of payments favorable

The Dutch balance of payments, which was favorable in the fourth quarter of 1962, continued to be so into the first quarter of 1963. Between January and March, an over-all surplus of fl 23 million was earned, compared with a deficit of fl 136 million in the first quarter of 1962. (See Table 7.) There was a sizeable surplus on current account which was sufficient to offset a four-fold increase in the outflow on capital account (from fl 79 million to fl 294 million).

The favorable current-account balance reflected the sharp reduction in the trade deficit from fl 525 million to fl 85 million as exports increased and imports decreased. In addition investment income, which had been very low in 1962, was up considerably; but the surplus on invisibles dropped by almost 50 per cent, mainly because transportation receipts were down.

Table 7. Netherlands: Balance of Payments 1961-First Quarter 1963^{1/}
(million Dutch guilders)

	<u>1961</u>	<u>1962a/</u>	<u>1962</u>	<u>1963a/</u>
1. <u>Goods and Services</u>				
Merchandise	-1,284	-1,189	-525	-85
Investment income	615	394	120	213
Other services	<u>1,532</u>	<u>1,416</u>	<u>348</u>	<u>189</u>
Total	863	621	-57	+317
2. <u>Private Capital</u>				
Transactions in domestic securities	658	747	140	199
Transactions in foreign securities	-765	-374	-82	7
Direct investment	-256	-126	58	-160
Long-term credits	-126	-542	-100	-141
Other	<u>161</u>	<u>- 57</u>	<u>62</u>	<u>142</u>
Total	-328	-352	78	47
3. <u>Commercial Banks Capital</u>				
Long-term	-210	-143	-10	-6
Short-term	<u>-273</u>	<u>- 16</u>	<u>-107</u>	<u>-303</u>
Total	-483	-159	-117	-309
4. <u>Official Payments</u>				
Debt repayments	-277	-197	- 8	- 2
Other	<u>-104</u>	<u>- 90</u>	<u>- 32</u>	<u>- 30</u>
Total	<u>-381</u>	<u>-287</u>	<u>- 40</u>	<u>- 32</u>
<u>Surplus or Deficit (-)</u>	<u>-329</u>	<u>-177</u>	<u>-136</u>	<u>+ 23</u>
Financed by:				
Change in IMF position (increase-)	-442	145	163	--
Former EPU credits, etc. (receipts)	- 39	18	6	4
Increase or decrease (+)				
gold stock	-474	- 4	- 3	- 2
foreign exchange, central bank	673	- 90	- 62	- 50
foreign exchange, commercial banks	<u>611</u>	<u>108</u>	<u>32</u>	<u>25</u>
Total	<u>329</u>	<u>177</u>	<u>136</u>	<u>- 23</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 main change on capital account was an almost threefold increase in commercial banks' short-term capital outflow (from fl 107 million to fl 303 million). The inflow of private capital was down. On the other hand, transactions in foreign securities resulted in a very small capital inflow; foreigners bought more Dutch securities than they had in the previous year and the inflow of short-term capital increased.

The government account, with an outflow of fl 32 million, was about unchanged from the preceding year. Most of this outflow represented aid payments.

Official reserves increase substantially

The favorable balance of payments produced an increase in the reserve position of the Central Bank. During the first half of 1963, foreign exchange held by the Nederlandsche Bank increased by \$95 million, with \$88 million of this rise occurring in the second quarter. (See Table 8.) In July, foreign exchange holdings declined \$75 million: the Netherlands prepaid \$70 million of its long-term debt to the United States Government. The Government is financing this payment by depositing Treasury paper with the Central Bank. This in turn will give the Bank more scope for open market operations.

Table 8. Netherlands: Changes in Official Reserve Position
1961 - June 1963
 (millions of U.S. dollars)

	<u>Dec. '60-</u> <u>Dec. '61</u>	<u>Dec. '61-</u> <u>Dec. '62</u>	<u>Dec. '62-</u> <u>June '63</u>	<u>Dec. '62-</u> <u>Mar. '63</u>	<u>Mar. '63-</u> <u>June '63</u>
<u>Netherlands Bank</u>					
Gold	--	--	--	--	--
Foreign exchange	<u>-157</u>	<u>28</u>	<u>95</u>	<u>7</u>	<u>88</u>
Total	-157	28	95	7	88

Source: International Financial Statistics.

The improvement in the external position and a tightening of the domestic money market (which motivated commercial banks to bring in funds from abroad) helped to make the Dutch guilder very strong on foreign exchange markets. In the March-May period, the guilder came very close to being traded at the guilder ceiling (dollar floor) of 27.84 U.S. cents at which the Central Bank is committed to intervene to buy dollars. (See Table 9.) In June and July, however, the guilder rate slipped slightly, especially after mid-July, but it was still being traded well above the par value of 27.624 cents. Part of the reason for the lesser demand for guilders is the relative easing of bank liquidity which prompted banks to export money.

Money market less tight until mid-July

After the temporary factors which had led to a sharp tightening of the money market in April and May had worked themselves out, a period of relative ease prevailed until about mid-July. The market tightened temporarily and eased again towards the end of the month. This development was reflected in the official call money rate, which was reduced from 2.50 per cent in the week ending May 3 to 1.00 per cent in the week ending June 7. (See Table 10.) By July 12 the rate momentarily returned to 2.50 per cent but was down again to 1.25 per cent on August 2.

Some of the factors making for these sudden changes in money-market conditions were accidental. Certainly no great changes had been expected by the authorities, who maintained the required cash reserve ratio at 3 per cent throughout the period. Changes in money circulation and the cash position of the Treasury were the main factors influencing the market. A fl 300 million bond issue by the Government (for which payment had to be made on June 13) did not disturb the

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

	Par Value	27.624		
	Lower Limit	27.42		
	Upper Limit	27.84		
	<u>Month</u>	<u>Monthly Average</u>	<u>Week Ending</u>	<u>End of Week</u>
1962	November	27.748	June 7	27.785
	December	27.779	14	27.795
			21	27.783
1963	January	27.772	28	27.763
	February	27.773		
	March	27.808	July 5	27.760
	April	27.828	12	27.770
	May	27.815	19	27.759
	June	27.780	26	27.743
	July	27.755		
			August 2	27.731

1/ Noon buying rates

Source: Federal Reserve Board

Table 10. Netherlands: Selected 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
April	1.62	1.91	4.27
May	1.55	1.96	4.29
<u>Week ending</u>			
June 7	1.00	1.80	4.44
14	1.00	1.75	4.47
21	1.00	1.98	4.49
28	1.50	2.00	4.56
July 5	1.00	1.81	4.59
12	2.50	2.25	4.32
19	2.50	2.25	4.32
26	2.00	2.06	4.32
August 2	1.25	1.75	n.a.

Source: OECD; Netherlands Central Bank

relative ease of the market because banknotes in circulation also declined at the same time. In mid-June, the Central Bank foresaw some difficulties in availabilities for the month-end requirements and made it possible for the banks to deposit Treasury paper which had to be bought back again on either July 8 or July 25. The banks made use of this offer to the amount of fl 174 million. In the week of July 1, however, the Treasury unexpectedly paid out fl 275 million in debt redemption and other payments, which resulted in an excess of liquidity. Consequently, the banks again started to place funds abroad; except for the temporary tightening in mid-July, the market has remained relatively easy since.

The bond market has been dominated by the borrowing activities of the Government and the Bank for Local Communities. After floating a fl 300 million bond issue in February, the Government took up a further fl 300 million from the social security funds. This was thought to have satisfied the Government's long-term requirements for 1963. But in May another fl 300 million bond issue was floated. Because of the heavy demand of the authorities for long-term funds, the capital market will probably remain closed to foreign issues for the time being.

After declining slightly from the peaks reached in May when foreign demand for Dutch stocks was heavy, the stock market was comparatively stable during June and the first half of July. After the announcement of President Kennedy's balance of payments measures, the internationally traded Dutch issues declined in the Amsterdam market but they made up much of the lost ground subsequently.