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Economic Developments in Sweden,  
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Economic Developments in Sweden: August-December 1963

Summary

Continued economic expansion over the summer months and into early fall suggest that 1963 will be a moderately good year for Sweden, with recovery from recession stimulated by reviving export demand, especially high levels of building activity, and buoyant consumer spending.<sup>1/</sup> This is the sense of the relatively optimistic October report of the Swedish Business Cycle Research Institute; and the Institute forecasts a continued generally favorable economic development at least through the first half of 1964. It is even expected that business investment, which has been the generally weak factor in the current recovery, will revive in line with sustained improvement in business conditions.

Despite earlier signs of strain, particularly in the building sector-- where anticyclical building programs initiated in 1962 and a drive to complete projects delayed by last winter's bad weather led to labor shortages and encouraged rapid wage increases--inflationary pressures do not appear to have intensified. At the end of August, agreement was reached on a voluntary curtailment of public building activity as well as on the postponement of certain public projects until June of next year. Wages have continued to rise throughout Swedish industry, but at a somewhat reduced pace, while price indices have continued to edge up moderately.

The monetary authorities are still concerned over excessive credit expansion. But because so great a part of the increase in bank lending this year has been a counterpart to the politically desirable spurt in building activity, the Bank of Sweden to a large extent relied on repeated warnings on the dangers of

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<sup>1/</sup> For a review of the Swedish economy in the preceding period see "Economic Developments in Sweden: May-August 1963," September 23, 1963.

continued rapid credit expansion. In September, however, when some banks had difficulty maintaining prescribed liquidity quotas, the Bank took the unusual step of announcing that it would deny access to the discount window if accommodation were sought solely for the purpose of evading the obligation to maintain liquidity ratios, rather than to meet legitimate credit needs. In response to this action and to the central bank's repeated warnings, the growth in bank lending has in fact recently slowed.

Since midyear, Sweden's external position has improved somewhat. Imports have continued at a high level, in response to buoyant consumer demand as well as to rising levels of business activity. But exports have made up some of the ground lost last winter, when outbound shipments were severely delayed by the weather. Exports hardly changed in value in the first six months of this year, and the half-yearly trade deficit was roughly double that recorded in January-June 1962. Through October, however, Swedish exports had risen by 7.4 per cent over the corresponding months in 1962, and the deficit--at \$186 million--was only about 30 per cent above the deficit for January-October of last year.

The improvement in Sweden's trade accounts partly reversed the earlier drop in exchange reserves. Sweden's reserves declined by \$70 million in the first six months, but rose by \$24 million between the end of June and November 30. In view of the rather significant additions to Swedish reserves in 1961 and 1962, the loss so far this year of \$46 million is not regarded with any alarm.

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Industrial expansion continues; data may understate growth

Industrial production in Sweden continued to grow steadily, albeit modestly, through September, the latest month for which data are now available. (See Table 1) The seasonally adjusted index increased by about 2 per cent in the first three

quarters of the year. As before, virtually the entire gain was concentrated in the consumer goods sector, while output of producers' goods registered no change on balance.

Table 1. Sweden: Industrial Production, 1961-63

(quarterly averages of seasonally adjusted monthly data, 1935 = 100)

<u>Quarter</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>Index of Change</u> (1962 - 100)
I	286	292	291	99.6
II	280	297	305	102.7
III	281	300	304	101.3
IV	289	296	-	-

Sources: Affarsvärlden; Bank of Sweden, Ur tidningarna (daily press releases).

According to Swedish sources, however, there is some reason to question the rather modest rate of expansion indicated by the official index of production, since the method of calculation is believed to involve some understatement of the recent upward movement. For one thing, production trends in three industrial branches--ore mining, iron and steel, and pulp and paper--which had been hardest hit by the 1961-62 recession and which were rather weak at the beginning of this year, are now clearly on the expansive side. Trade reports suggest that 1963 will be a record year for both production and exports of Swedish steel, and that forest products--especially paper--will also make a very good showing. In the second place, the index measures output in the engineering industry on the basis of employment data. But while employment declined, Swedish comment seriously questions whether production in this important sector has actually dropped off, particularly in view of recent evidence that new orders, especially for exports, have definitely increased.

On the basis of these considerations, the Business Cycle Research Institute is now estimating that industrial production will show an increase of about 3 per cent for 1963.

Continued expansion forecast for 1964

The regular autumn report of the Swedish Business Cycle Research Institute, published in mid-October, included a preliminary estimate of results for 1963 and a relatively optimistic forecast of economic developments in the first half of 1964. The principal stimuli to expansion in 1963--a year of recovery from recession--have been export demand, building activity, and expanded consumer spending. The Institute held to its earlier estimates, contained in its April report, that in 1963 GNP would show a gain of 4 per cent and that total fixed investment would increase by about 4-1/2 per cent. The increased investment was almost entirely confined to the public sector; private investment has remained virtually constant for the past two years, and in 1963 increased investment in business construction will be roughly offset by a decline in investment in machinery and equipment. But the Institute has revised upward its earlier estimate for private consumption, which is now expected to show a gain of 5 per cent.

In general, the Institute considers that economic expansion in most areas of the economy will continue into the first half of 1964 at roughly the present rates. Sweden's gross national product is expected to increase by about 4 per cent--matching the gain expected for this year--and consumption as well as exports and imports are also expected to continue at current rates of expansion. Although there is apparently no firm basis for the Institute's belief that 1964 will witness a revival of business investment, it evidently considers that continued economic expansion must encourage some upturn in this strategic economic sector.

Labor market tightness, wage and price rises continue

Since the spring months, rising levels of economic activity have continued to make inroads into the idle labor force. By November, unemployment--even at typically minimum Swedish levels--was generally somewhat lower than at this time last year. The number of vacancies has remained rather high in terms of numbers out of work as well as in relation to levels registered at this time last year. (See Table 2)

Table 2. Sweden: Labor Market Indicators, January-August 1962-63

<u>Year and Month</u>	<u>Total</u> <sup>1/</sup>	<u>Unemployment</u>			<u>Vacancies</u> <u>(thousands)</u>
		<u>Total</u>	<u>Percentages</u> <sup>2/</sup>		
			<u>Industry</u>	<u>Construction</u>	
1962 Jan.	35112	2.1	1.1	8.5	108.1
Mar.	31732	2.0	1.0	8.4	117.0
June	16280	0.8	0.6	2.1	137.9
Aug.	16213	0.8	0.7	1.7	122.6
Nov.	22966	1.2	0.9	2.7	110.7
1963 Jan.	56621	3.6	1.5	17.2	107.8
Mar.	32448	1.9	1.1	6.8	118.6
June	14637	0.7	0.6	1.6	150.6
Aug.	15927	0.8	0.6	1.4	134.1
Nov.	20675	1.1	n.a.	2.5	n.a.

<sup>1/</sup> Registered unemployed.

<sup>2/</sup> Percentages of insured workers.

Source: Monthly Digest of Swedish Statistics, October 1963;  
Bank of Sweden, Ur tidningarna.

Wages continued to rise throughout most of Swedish industry in the period under review but the latest statistics (for August) suggest some moderation of the upward movement in recent months. Between August 1962 and August 1963 hourly wages rose by

6.5 per cent for male workers and by 8.8 per cent for female workers in Swedish industry; but these increases are somewhat below the year-to-year percentage gains registered in February and in May of this year. (See Table 3)

Table 3. Sweden: Changes in Hourly Wages in Industry, 1961-63

<u>Month</u>	<u>Male Workers</u>	<u>Female Workers</u>
	(index of change; corresponding month of previous year = 100)	
1962 Nov.	107.9	110.7
1963 Feb.	110.1	115.0
May	107.8	110.7
Aug.	106.5	108.8

Source: Statistiske meddelanden, Series V, 1963:45.

At this writing, collective wage agreements are up for renegotiation and the current bargaining position is regarded as unusually complicated on both sides. The two-year wage agreement signed in March 1962, which is now expiring, provided for a somewhat reduced rate of wage increase through 1963-64--offset by higher "fringe" benefits of various sorts--but the current expansionary period has evidently defeated earlier hopes that the upward "wage drift" stemming from wage boosts in excess of contractual margins would be less pronounced than in past years. Swedish sources now suggest that it may prove impossible to reach agreement on a wage settlement for longer than one year.

As before, rising wage costs and high levels of consumer spending have not yet been fully reflected in Swedish price indices. (See Table 4) The increase of 2.3 per cent in the cost of living between December 1962 and October of this year compares with a rise of 4.3 per cent in the same period a year earlier. The reverse is true in the case of wholesale prices, which rose by 3.2 per cent through October 1963, as compared with an increase of 2 per cent between December 1961 and October 1962. Import prices have risen somewhat more sharply than export prices and the

resulting slight deterioration in Sweden's terms of trade contributed to the trade deficit in the period under review.

Table 4. Sweden: Price Movements 1961-63

(1949 = 100)

<u>Item</u>	1961 <u>Dec.</u>	1962		1963		<u>Percentage Changes</u>	
		<u>June</u>	<u>Dec.</u>	<u>June</u>	<u>Oct.</u>	<u>Dec. 1962</u> to <u>Oct. 1963</u>	<u>Oct. 1962</u> to <u>Oct. 1963</u>
Cost of living	164	171	172	175	176	+2.3	+2.9
Wholesale prices	152	154	156	159	161	+3.2	+3.9
Export prices	144	143	142	143	145	+2.1	+2.1
Import prices	125	125	124	128	129	+4.0	+4.0
Terms of trade <sup>1/</sup>	115	114	115	112	112	-	-

<sup>1/</sup> Ratio of export prices to import prices.

Sources: Monthly Digest of Swedish Statistics, October 1963;  
Finanstidningen, November 27, 1963.

Fiscal policy unchanged, but budget surplus may re-emerge

Except for measures taken around midsummer to reduce the strain on manpower resources and the wage level resulting from the greatly increased level of building activity, the authorities have not taken any new fiscal policy actions in recent months. The measures adopted in the building sector, reached by agreement with local authorities at the end of August, provide for a voluntary curtailment of public building activity, and for the postponement until next June of projects costing over 300,000 kronor. The authorities have not made any effort to reduce residential construction, which is considered so essential, nor are they planning any restriction on private investment activity, which shows some signs of recovering from a two-year period of sluggishness.

However, the most significant factor affecting future developments is the unexpected change in the budget outlook for the fiscal year ending June 30, 1964. The draft budget for fiscal 1964 provided for a deficit in the combined accounts, following two surplus years--a change considered appropriate in a period of cyclical weakness--but responsible Swedish comment now suggests that the combined working and capital budgets will once again show a surplus. Since this expected reversal from budget deficit to surplus coincides with the re-emergence of an expansionary phase in the Swedish economy, it would accord with Swedish economic policy objectives if the government accounts continued to exert a contractionary influence.

Monetary authorities rely on moral suasion

Although the Swedish money market has been generally tight since about midyear, the monetary authorities have not taken more vigorous anti-inflationary action since the last discount rate increase--from 3-1/2 to 4 per cent--on June 14. Bank credit expansion has continued at a fairly rapid pace but, probably because so large a part of the increased lending is associated with the rise in building activity this year, the Bank of Sweden has relied for the most part on repeated warnings of the danger of continued rapid bank credit expansion. According to press reports, these warnings have been repeated at each regular monthly meeting with representatives of the Swedish commercial banks since August, and most recently at the mid-November meeting. In September, moreover, when some banks were finding it difficult to maintain prescribed liquidity quotas, the Bank of Sweden took the somewhat unusual step of announcing that it would deny rediscounting privileges to banks seeking such accommodation solely to meet liquidity requirements. These warnings, and the action taken in September, have recently been reflected in a slight moderation of the growth in bank lending, but some Swedish comment suggests that the changed prospects for a

budget surplus have also encouraged the banks to follow a more cautious lending policy.

Trade gap reduced and reserve losses reversed

Favorable export performance in the third quarter contributed significantly to slowing Sweden's trade deficit, which had doubled between the first half of 1962 and January-June of this year, chiefly because exports were impeded by the severe weather conditions in the early months of 1963. As a result, Swedish exports were almost unchanged in value in the first six months of this year, by comparison with January-June 1962, although rapid improvement was made from April onward. In the third quarter Sweden earned a trade surplus of SKr. 161 million, as compared with a deficit of SKr. 139 million in the corresponding period in 1962. In the first ten months, the year-to-year gain in export value amounted to 7.4 per cent. Swedish imports continued to grow at about the same rate as in the earlier months of this year; in the first ten months imports rose by 8.7 per cent over January-October 1962. (See Table 5) Sweden's visible trade deficit totalled SKr. 962 million (\$186 million) in January-October, or slightly less than one-third higher than the deficit of SKr. 738 million (\$142 million) in January-October 1962. As before, the basic explanation for the larger deficit lies in rising imports, especially of consumer goods, and in the effects of the severe winter on Swedish export performance earlier this year. A small part of the deterioration also reflected a slight deterioration in Sweden's terms of trade.

The recent improvement in Sweden's trade accounts, together with increased tourist receipts and net shipping revenues, led to a partial reversal of the earlier decline in Sweden's foreign exchange reserves. Gold and foreign exchange holdings declined by about \$70 million between the end of December 1962 and June 30 of this

Table 5. Sweden: Foreign Trade, 1962-63  
(monthly averages, in millions of Swedish kronor)

<u>Month or Quarter</u>	<u>Imports</u>		<u>Exports</u>		<u>Trade Surplus (+) or Deficit (-)</u>	
	<u>1962</u>	<u>1963</u>	<u>1962</u>	<u>1963</u>	<u>1962</u>	<u>1963</u>
First Quarter	1,361	1,342	1,178	1,138	-183	-204
Second Quarter	1,266	1,476	1,307	1,355	+ 41	-121
Third Quarter	1,221	1,373	1,177	1,427	- 44	+ 54
October	1,589	1,708	1,419	1,564	-170	-144
January-October	1,313	1,428	1,240	1,332	- 73	- 96

Sources: Monthly Digest of Swedish Statistics, October 1963; Bank of Sweden, Ur tidningarna (daily press releases). Data are not adjusted for seasonal variation.

Table 6. Sweden: Net Reserve Position, 1961-63

<u>End of Period</u>	<u>Riksbank</u>	<u>Commercial</u>	<u>Total</u>	<u>Change</u>	
	<u>(in millions of Swedish kronor)</u>	<u>Banks</u>		<u>(mill. Kr.)</u>	<u>(mill. \$)</u>
1961 December	3,318	472	3,790	--	--
1962 June	3,701	474	4,175	+385	+74.4
October <u>1/</u>	3,891	532	4,423	+248	+47.9
December	3,869	492	4,361	- 62	-12.0
1963 June	3,809	191	4,000	-361	-69.7
November	3,696	428	4,124	+124.	+23.9

1/ Peak level.

Sources: Monthly Digest of Swedish Statistics, October 1963; Bank of Sweden, Ur tidningarna.

year, but almost all of this drop--\$66 million--occurred in the first quarter. By the end of November, reserves had risen \$24 million over the June 30 level, making a decline so far this year of about \$46 million. (See Table 6) In view of rather sizable additions to Swedish reserves in 1961 and 1962, and the basically strong external position, this decline is not officially regarded with any alarm.