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December 3, 1965

Economic Developments in Switzerland,
June-November 1965

21 pages

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Summary

Economic activity in Switzerland continued at very high levels during the period under review, but the rate of expansion in the economy slowed down.[1/] Construction activity--particularly for commercial and industrial purposes--was down in response to the building controls a tighter financial and labor market conditions. A wide range of industrial sectors also showed smaller year-to-year gains in output and decreasing backlogs of new orders. On the other hand, a higher level of government spending--both local and Federal--is still exerting expansionary influence and is expected to continue to do so next year. The Federal budget alone provides for an overall surplus of only SF 35* million for fiscal 1966, compared with SF 564 million in the current fiscal year.

Less expansive economic growth has relieved some of the demand pressure on the labor market. At the same time, the number of foreign workers has declined, and the Federal Council is expected to replace the existing rigid system of foreign labor controls with a more flexible one. This should work, along with the apparently reduced demand for labor, to lessen the present degree of strain in the labor market.

Prices and wages, however, have continued to rise sharply. Retail price increases intensified between March and October when the index rose 3.4 per cent. This was in part due to higher food costs, but the lifting of rent controls and higher mortgage rates throughout most of the country pushed rents up 7 per cent on the average. Due to escalator clauses in many labor contracts, wage rates

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1/ For the previous review of Swiss economic developments, see "Economic Developments in Switzerland, December 1964-May 1965," dated June 7, 1965.

* 1 Swiss franc = $0.2326.

moved up along with the cost of living. In July, all Federal employees were also granted a 3 per cent salary increase.

In view of the continuing pressure on prices and wages, the Federal Council recently announced continuation of the credit and capital market controls until March 1967. Because construction activity in the coming spring is expected to be more in balance with capacity, however, it plans to lift the restrictions on non-essential building in March 1966.

Financial conditions generally tightened during the June-November period, primarily in response to tighter conditions and higher interest rates abroad. Higher rates for Euro-Swiss franc deposits attracted an outflow of short-term funds; at times, the Banque Nationale Suisse (BNS) supplied funds to the money market during periods of stringency. Higher yields abroad on long-term investments have also, reportedly, attracted funds from Switzerland while at the same time repatriation of Swiss-owned foreign investments has slowed down. To prevent any further increase in domestic interest rates, the BNS is limiting new issues on the market in the fourth quarter. Foreign borrowing in the domestic market is also limited; the issues that have been allowed have been quickly oversubscribed and their prices bid up above their initial offering levels--in contrast to domestic issues--presumably because they are drawing funds from foreign sources that cannot be invested in domestic issues because of the government controls.

On the exchange markets the Swiss franc remained well below its ceiling against the U. S. dollar for most of the period, except during the attack on the pound in early August. Its relative strength reflected reduction in the inflow of foreign and repatriated funds, and more recently, the outflow of Swiss funds in response to rising interest rates in foreign financial markets. The BNS gained a small amount of reserves during the August sterling crisis but, since then, has lost $43 million, mostly to make payments abroad for the account of the Federal government. On November 23, official reserves totaled $2,843 million compared with $2,906 a year earlier when reserves reflected the inflow of funds from the sterling crisis.

The tapering off of the overheated economic pace has kept Swiss imports relatively stationary while export sales have continued to boom. The result was reduction in the seasonally adjusted trade deficit for the first nine months of the year to $534 million from $711 million in the same period of 1964.

Economic activity at high level; expansion slows down

The overall level of economic activity in Switzerland continued very high during the June-November period, but the rate of expansion in the economy showed signs of slowing down. The dampening effects of the anti-inflationary controls instituted in April-May 1964[2] became more apparent with slower year-to-year

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2/ See "Economic Developments in Switzerland, March-May 1964," dated June 1, 1964, pp. 2-4.

gains in most sectors of the economy and with absolute year-to-year declines in some. However, exports and cantonal and Federal government spending still tend to be strongly expansive.

New commercial and industrial building--previously one of the strongest expansionary forces--continued at a reduced level in the third quarter because of tight credit and physical limitations, especially building controls, and a scarcity of construction workers. Construction projects submitted for Federal inspection were 7 per cent below year-earlier levels. Plant extension construction continued to decline: only 40 per cent of the projects were undertaken for this purpose compared to over 50 per cent in previous years.

Residential construction--although exempted from the building control program--also showed signs of continuing to taper off. Although above year-earlier levels, new homes completed in the third quarter were sharply below second quarter. The decreasing number of building permits issued suggests greater slack in housing construction, although this is expected to be offset in part by a Federal government program of low-cost housing. (See Table 1.)

Less overtime, lower imports of raw materials and decreasing backlogs of new orders were signs of a general slowing down in a wide range of industrial sectors. This was particularly true in the textile and clothing, woodworking, printing, metals and chemical industries.

Table 1. Switzerland: Residential Construction in the 65 Largest Cities, quarterly totals, 1963-65 (in number of units)

Quarter	New Dwelling Units Constructed 1963	1964	1965	Residential Building Permits Granted 1963	1964	1965
I	4,534	4,424	4,604	5,887	10,440	4,550
II	5,494	5,829	6,335	7,455	5,821	5,912
III	4,427	4,807	5,119	6,705	5,942	4,766
IV	5,714	5,813		6,273	4,666	

Source: Banque Nationale Suisse, Bulletin mensuel.

Table 2. Switzerland: Retail Sales
(Year-to-year percentage increases adjusted for sales days)

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1963	9.4	8.9	12.0	3.6	11.2	7.0	7.2	14.2	6.6	8.3	9.3	8.8
1964	9.0	10.9	16.7	- 0.6	15.3	- 0.6	5.8	7.1	6.8	14.1	5.0	5.0
1965	9.3	4.4	6.5	19.5	0.2	12.2	10.3	5.5				

Souce: Département Fédéral de L'économie Publique, La Vie Economique.

On the other hand, strong expansionary factors still underpin the economy. The current high level of government spending--now quite controversial since the anti-inflationary controls are for the most part being kept in force through March 1967--for capital improvements such as highways, hospitals and schools, and military items is expected to continue into next year.3/ Investment demand for new machinery

3/ The Federal Council has recently submitted a budget for 1966 with an overall surplus of only SF 35 million*, compared with an estimated surplus of SF 564 million in the current fiscal year. Proposed expenditures were increased over SF 1.1 billion from 1965, including increases of SF 190 million for military equipment, SF 150 million for low-cost housing, SF 120 million for additional social services and SF 100 million for highway construction.

* 1 Swiss franc = $0.2326.

and equipment continues strong as producers seek to rationalize production methods; export demand is particularly heavy for sectors such as machine tools, technical apparatus and instruments and watchmaking. Finally, domestic consumption continued bouyant on a relatively stable level: from January to August, year-to-year gains in retail sales were 8.5 per cent in 1965 compared with 8 per cent in 1964. (See Table 2.)

Demand for labor eases; foreign work force reduced

The slower growth rate was also reflected in lower demand for labor, although labor market conditions in Switzerland remained very strained. During the April-September period--a time when the demand for workers is at a peak--registered job vacancies averaged 5,353, down from 6,302 in the same period of 1964 and 6,513 in 1963. (See Table 3.) Also, the amount of overtime authorized by cantonal authorities was down from the 1964 level almost 9 per cent in the same period.

The Federal government's emergency program to reduce the number of foreign workers in the country, which was implemented by executive decrees in February,[4/] has proved to be quite successful. These restrictions, which made it practically impossible for a foreigner to enter Switzerland in search of employment and required a 5 per cent reduction in the foreign work force of every firm in the country by June 30, were supplemented in July by an absolute

4/ See "Economic Developments in Switzerland, December 1964-May 1965," dated June 7, 1965, p. 8.

embargo on seasonal construction workers in order to keep them within a pre-set ceiling of 145,000. As a result of the measures, the national

Table 3. Switzerland: Unemployment and Job Vacancies, 1963-65
(numbers)

End of Month	Registered Unemployed			Registered Job Vacancies		
	1963	1964	1965	1963	1964	1965
January	4,896	1,049	818	5,044	6,039	6,499
February	2,174	303	667	5,571	7,134	5,359
March	454	242	264	6,210	6,996	5,937
April	261	174	155	6,288	6,760	5,686
May	230	129	138	6,269	6,411	5,421
June	185	139	140	6,374	6,207	5,477
July	148	111	88	6,545	6,018	5,346
August	142	130	117	6,701	6,133	5,161
September	171	119	117	6,902	6,283	5,027
October	194	196		6,739	5,954	
November	263	237		5,912	5,813	
December	778	631		4,954	5,685	

Source: Banque Nationale Suisse, Bulletin mensuel.

census of the foreign labor force--taken annually in August--showed a reduction in the number of foreign workers subject to compulsory registration of 44,573, or 6.2 per cent, from August 1964. The largest decline was in seasonal workers and border-crossers; among individual groups the greatest reduction affected seasonal Italian construction workers.

This was the first time since the build-up in foreign labor began five years ago that Swiss attempts to slow it down have shown any effect at all. To achieve these results, however, the authorities resorted to a rather rigid and harsh program which had the effect of actually freezing the level of employment in individual firms at a percentage of their March 1, 1964, level. Now, with the results of the census published, public concern over the unwieldy foreign population in the country may subside and make it easier for the Federal Council to replace the existing system with a more flexible one, as it has already announced. This factor, along with the reduced demand for labor, may alleviate some of the hardship caused firms--particularly commercial enterprises--not able to substitute labor-saving equipment when forced to curtail their work forces.

Prices and wages rise rapidly

Less bouyancy in the Swiss economy, however, has not moderated the sharply rising trend in prices. Consumer price increases intensified between March and October when the consumer price index published by the BNS posted a 3.4 per cent gain, compared with a 4 per cent increase from October (1964) to October (1965). (See Table 4.) A part of this increased cost of living can be laid to temporary or seasonal factors such as a rise in food prices; with reduced import supplies and unusually bad summer weather, the food index rose about 3 per cent in the second and third quarters. However, increased interest rates on mortgage money, excess demand for housing, and the lifting of rent controls in most of the country pushed rents up almost 7 per cent between March and September. Furthermore, higher labor costs continue to exert considerable pressure on prices.

Table 4. Switzerland: Price Indices
(August 1939 = 100; month or monthly averages)

		Consumer Price Index	Wholesale Price Index Total	Domestic	Foreign
1963	IV	205	235	234	234
	Year	202	231	231	230
1964	I	206	234	232	236
	II	208	236	236	235
	III	208	235	234	236
	IV	210	237	237	237
	Year	208	236	235	236
1965	I	210.5	235.2	236.2	233.4
	II	213.3	235.7	236.3	234.7
	III	216.2	236.2	237.6	236.2
	July	215.2	235.7	238.0	231.8
	August	216.4	235.7	236.7	233.6
	September	217.0	237.3	238.2	235.5
	October	217.7	238.4	n.a.	n.a.

Source: Banque Nationale Suisse, Bulletin mensuel.

On the other hand, wholesale prices, which are much less influenced by rising labor costs, have shown a much more moderate rise. The overall wholesale price index compiled by the BNS rose only 1.3 per cent between the end of March and October. Higher prices on imported raw materials and foodstuffs were mostly responsible.

Since wages in Switzerland--generally speaking--are tied to the cost of living index and Swiss employers may even raise wages a few points over the rise in the cost of living, the spiraling trend in wage rates is expected to continue. By the end of June, the quarterly index of industrial wage rates (including the building trades) had risen over 3 per cent from the end of 1964. In July, the Federal Council authorized a 3 per cent cost of living increase for all civil servants and employees of the postal and railway services to be paid in a lump sum at the end of the year. Wages in the commercial and service trades have posted even greater increases as the cutback in foreign labor increased the difficulty of properly staffing enterprises.

Anti-inflationary program to be continued until March 1967; supplementary program presented to Federal Assembly

With some easing of economic over-heating, public reaction--especially from banking and employers organizations and the press--against continuation of the present program of controls has been growing.5/ However, in the debate on the stabilization program during the fall session of the Federal Assembly in September, government ministers reaffirmed their intentions to maintain the program until its full effects had been realized. In a later declaration, the Federal Council announced that all parts of the program would continue in force until March 1967 except the controls on building, which would be lifted in March 1966. As previously mentioned, some less restrictive system of limiting the foreign labor inflow is also under consideration.6/

5/ The government has been coming under increasing fire from the press for "inconsistency" in its economic policy. The *Schweitzeriche Handelszeitung* in early August criticized the authorities for attempting to slow down economic activity through credit and capital restrictions while at the same time keeping interest rates artifically low. The *Schweitzeriche Arbeitgeber Zeitung*, organ of the Central Union of Swiss Employers' Organizations, also criticized the BNS measures to ease stringency in the money market in the summer while continuing the credit and capital controls. Earlier in the year, the *Neue Zuercher Zeitung* had called for rescinding the controls on foreign capital inflows.

6/ See above pages 7 and 8.

The Federal Council presented its "supplementary stabilization program" also to the fall session of the Federal Assembly. This longer-range set of policy priorities and intentions was promised when the present emergency stabilization program was instituted in early 1964. It consists mainly of a listing of studies currently underway--for example, those on subsidies and taxes--and a statement of the economic policy intentions of the present Council. Several new commissions have been established, such as a permanent Commission for Consumer Questions, and the government still intends to press for the extension of the powers of the BNS, particularly to widen the scope for monetary policy. Furthermore, to help keep the increase in public expenditures in line with the annual growth in gross national product, a program of long-range budget planning is being instituted.

Financial conditions tighten in response to greater foreign demand for funds

A gradual tightening took place in Swiss financial markets during the June-November period. A brief spell of ease occured in late July and early August when the inflow of funds accompanying the attack on the pound sterling added liquidity to the market. The three-month deposit rate at large Zurich banks dropped slightly at that time to 3.69 per cent from its end-June high of 3.75 per cent but soon began to move upward again. Recently the demand for funds in anticipation of year-end window-dressing has pushed the three-month rate to 4 per cent. (See Table 5.)

Table 5. Switzerland: Selected Financial Indicators

	1965 Jan. 29	Apr. 23	June 25	Aug. 27	Sept. 24	Oct. 29	Nov. 19
Interest rates							
3-month yields:							
Zurich banks a/	3.06	3.25	3.75	3.69	3.88	p/ 4.00	p/ 4.00
Euro-dollars b/	3.28	3.78	4.88	4.44	4.50	5.00	5.00
U.S. Treasury bills b/	2.61	2.93	3.74	3.83	3.94	4.03	4.07
Euro-Swiss francs	3.12	3.88	4.56	4.25	4.19	4.75	4.94
Deposit certificates (3 to 8 years)							
12 cantonal banks	4.36	4.36	4.36	4.36	4.36	4.36	p/ 4.36
5 large banks	4.29	4.29	4.29	4.39	4.39	4.39	p/ 4.39
Long-term government bonds	4.05	3.88	3.90	3.93	3.96	3.96	p/ 3.97
Stock prices (1958 = 100)	234.3	225.4	213.3	232.4	227.3	224.6	223.9
Exchange rates							
Spot francs (U.S. cents)	23.128	23.000	23.073	23.158	23.158	23.145	23.153
Forward premium (+) discount (-) on franc c/	+1.22	+0.97	+0.34	+0.23	+0.28	-0.23	-0.00

a/ Most frequently quoted rates of the five large Swiss banks in Zurich.
b/ Return in Swiss francs after cost of exchange cover.
c/ Per cent per annum.
p/ Preliminary figures.

For a combination of reasons, conditions in the market for short-term funds continued unseasonally tight in July following the usual mid-year window-dressing stringency:

1) The temporary furnishing of sizable amounts of funds by the BNS to the market in late June (when mid-year window-dressing was under way) actually had the effect of shifting the market effects of this demand into July. Over one-half billion Swiss francs supplied commercial banks on a swap basis in exchange for U. S. dollar assets and an additional SF 127 million in exchange for Federal government notes were reversed in July and forced the commercial banks more sharply into the money-market than they otherwise would have been.

2) Forward sales of Swiss francs by speculators in April, when the franc was weak, had to be delivered.

3) Finally, foreign demand for Swiss francs increased sharply, both because of tighter financial markets abroad and the need to make payments to Switzerland.

To offset money-market tightening, the BNS in late July reacquired SF 264 million in value of guaranteed Bank of England sterling notes which had been placed with the commercial banks in January in a liquidity-absorbing move. It also discounted SF 70 million in Federal government notes; but these were later returned to the banks to offset the inflow of funds associated with the early August attack on the pound. Higher interest rates abroad, however, continued to draw funds to foreign investments, and the central bank again furnished funds--SF 100 million--to the banks in late September on a temporary basis.

Further evidence of growing monetary tightness is found in the increased competition of the large commercial banks for funds. In July, these banks raised rates on 3-to-8-year certificates of deposit by 10 basis points to 4.39 per cent. (See Table 5.)

Capital market tighter; fourth quarter new issue quota reduced

In the market for long-term capital, a gradual tightness also developed during June-November; as a result, the authorities were forced to trim the flow of new issues onto the market during the final half of the year and on occasion to intervene in the secondary market to stabilize prices. Yields on long-term government bonds, for example, climbed steadily from 3.90 per cent in June to 3.97 per cent in mid-November. (See Table 5.) Prices of foreign bonds listed on Swiss exchanges also have been under pressure recently. This is generally attributed to the greater attractiveness of foreign issues in Germany because of the relatively lower yields on foreign issues in Switzerland.

To prevent a further increase in interest rates, the BNS is currently following a highly restrictive policy on new issues. In the third quarter, the quota of allowable new domestic bond issues was sharply cut after conjestion occured in April-May when a large volume of new offerings was permitted on the market. (See Table 6.)

Table 6. Switzerland: New Capital Market Issues, 1964-65
(month or monthly average, million U.S. dollars)

	1964 I	1964 II	1964 III	1964 IV	1965 I	1965 II	1965 III	1965 Oct.
Swiss borrowers 1/								
Bonds	66.9	37.1	37.3	52.2	45.7	69.8	35.7	53.7
Stocks	11.9	24.3	5.0	2.5	7.8	10.1	1.4	.2
Total	78.8	61.4	42.3	54.7	53.5	79.9	37.1	53.9
Foreign borrowers 1/								
Bonds	7.6	10.1	10.0	1.9	3.1	9.3	3.1	10.5
Total (gross)	86.4	71.5	52.3	56.7	56.7	89.2	40.2	64.4
Total (net)	85.8	65.8	50.7	31.4	49.8	64.3	38.3	n.a.
Foreign borrowing as % of total (gross)	8.8	14.1	19.1	3.4	5.5	10.8	8.1	16.3

1/ Amounts are gross.
Source: Banque Nationale Suisse, *Bulletin mensuel*.

The fourth-quarter quota was set at $137 million equivalent, compared with $157 million marketed in the same period of 1964 and with heavy requests for permission to float new bonds (reported to be $211 million equivalent in the fourth-quarter). In view of past experience, the present level of offerings should allow for continued stability in the market unless the Federal government decides to offer low-cost mortgage money to home builders by marketing a large bond issue--possibly in the vicinity of $100 million equivalent. The BNS, however, is opposing such an issue at the present time.

The extent to which the cost of long-term borrowing has risen over the past nine months is illustrated by the terms of the issue offered in late October by Maggia Kraftwerke (an electrical power company). This bond issue--with a coupon of 5 per cent--was sold at 101 per cent to yield 4.95 per cent to maturity. In April the same company borrowed SF 35 million at an interest cost of 4.72 per cent to maturity.

The authorities continue to allow only a small volume of foreign borrowings in Switzerland, although these have been larger than expected in view of the BNS' reportedly recent reaffirmation that it has no intention of relaxing the restrictive measures on foreign flotations before next spring. The first issue to be offered for a U. S. firm in Switzerland in years was put on the market in October. The Luxembourg subsidiary of Socony Mobil Oil borrowed $10.5 million equivalent, issuing 15-year bonds with a 4 3/4 per cent coupon at par. In mid-November, the British Petroleum Company also marketed a $10.5 million equivalent issue on the same terms as the Socony Mobil issue. Although both issues were marketed at yields below those on comparable domestic issues currently offered, they were quickly over-subscribed as they drew funds from foreign sources which are unable to invest in domestic issues because of current controls on foreign funds. In fact, after the books were closed, the price of the Socony Mobil bond rose to 103, compared with its offering price of 100.

The Swiss stock market, generally speaking, continues to reflect the outlook for tight credit and slower economic growth. In July and August quotations recovered slightly from their low point in June. Since then, however--except for some speciality items such as chemicals and Swissair--most prices have gradually drifted lower. Between August 27 and November 26, the Swiss Bank Corporation's industrial share index eased over 5 per cent. (See Table 7.)

Table 7. Switzerland: Industrial Share Index
(1958 = 100)

1964-65 High: 258.1 Jan. 6, 1964
1964-65 Low : 205.4 June 11, 1965

1965			
January 29	234.3	October 1	227.4
February 26	241.5	8	226.2
March 26	226.5	15	227.8
April 30	224.6	22	226.3
May 25	213.7	29	224.6
June 25	213.3	November 5	226.4
July 30	209.3	12	225.5
August 13	220.8	19	223.9
27	232.4	26	220.9
September 10	225.7	December 3	216.6
24	227.3		

Source: Swiss Bank Corporation

Swiss franc stronger; official reserve holdings decrease

Generally tighter conditions in the Swiss money market and the ensuing repatriation of foreign currency assets strengthened the Swiss franc in the exchange markets from its depressed level in June. For short periods during July, when the money market was very tight, and again in early August, when the pound came under attack, the franc quotation touched its ceiling against the U. S. dollar (i.e., the dollar quotation in Switzerland fell to the level at which the BNS supported it). Since mid-August, however, it has fluctuated in a range between 23.140 and 23.173 U. S. cents per franc, and in late November stood at 23.158 U. S. cents. (See Table 8.)

For most of the period between June and November, the Swiss franc rate remained well below its ceiling against the U. S. dollar, although on a few special occasions it reached its upper limit when demand became especially concentrated. Since Switzerland's current-account payments position is much improved this year--the estimated annual deficit is put at most only one-quarter the $400 million in 1964--this performance in the franc rate would appear to be due to alteration in the volume and direction of capital flows. The inflow of foreign funds through the exchange markets has been much reduced this year because of the greater effectiveness of the government's legal regulations discouraging such movements. And more recently, funds in Switzerland have been showing responsiveness to rising interest rates in other money and capital markets and have been moving through the exchange markets into foreign currency investments.

At the same time, however, increased demand for the Euro-currency market for Swiss franc funds <u>per se</u> narrowed the differential between Euro-dollar and Euro-Swiss rates and kept the premium (figured on a per annum basis) on the forward Swiss franc vis-a-vis the U. S. dollar within a much narrower range than previously. (See Table 5.)

Table 8. Switzerland: Spot Rates for the Swiss Franc[1]
(U.S. cents per Swiss franc)
Par Value--22.868
Lower Limit--22.472
Upper Limit--23.178[2]

1965			
April 30	22.999	October 1	23.168
May 28	23.025	8	23.168
June 25	23.073	15	23.148
July 16	23.116	22	23.140
30	23.176	29	23.145
August 13	23.175	November 5	23.149
27	23.158	12	23.153
September 10	23.173	19	23.153
24	23.158	26	23.158

1/ Selling rates in the New York market.
2/ Recent upper limit imposed by the BNS in the Swiss market; however, the Swiss authorities are not committed to hold the rate below 23.283.
Source: Federal Reserve Board.

Between June 30 and November 23, BNS official holdings of gold and foreign exchange decreased $161 million to $2,843 million equivalent. This compares with $3,015 million equivalent at the end of January this year and $2,906 million a year ago, when reserves were inflated by the inflow of funds resulting from the sterling crisis.

Both gold and foreign exchange holdings decreased in July as the commercial banks reversed their foreign exchange asset swaps with the BNS, which had been made in late June[7], and the BNS reversed its gold swaps with the BIS. Official foreign exchange holdings increased temporarily in August when the BNS was forced to give

7/ See above pages 13 and 14.

Table 9. Switzerland: Official Reserves
(end of month figures, million U.S. dollars)

	1964	1965						
	Dec.	Mar.	June	Jul.	Aug.	Sept.	Oct.	Nov. 23
Gold	2,726	2,703	2,790	2,655	2,653	2,656	2,661	2,661
Foreign Exchange	394	247	217	212	236	216	210	185
Total	3,120	2,950	3,007	2,867	2,889	2,872	2,871	2,846
Change	+46 (yr)	-170	+57	-140	+22	-17	-1	-25
Gold Ratio	87	92	93	93	92	92	93	94

Source: Banque Nationale Suisse.

substantial support to the U. S. dollar in the exchange market during the period sterling was under attack. Since then, however, sizable foreign payments by the Federation--in particular for military equipment--have reduced the BNS' foreign exchange reserves.

Foreign trade deficit down sharply

The slow-down in the over-heated economic pace in Switzerland has had very favorable effects on the country's foreign trade developments. In the third quarter, imports (seasonally adjusted) were only slightly higher than in the third quarter of last year, while total exports boomed to a level almost 12 per cent higher. The resulting third-quarter deficit was $171 million, compared with $231 million in 1964. (See Table 10.)

In the first nine months of the year, the Swiss foreign trade deficit (seasonally adjusted) was $534 million, 25 per cent lower than the $711 million deficit in the same period of 1964. Imports inched up only a fraction over year-earlier levels (in 1964 the year-to-year gain had been over 11 per cent) while exports posted a 12 per cent gain. Foreign demand continued strong for nearly all major Swiss exports: sales of engineering products, instruments and apparatus, watches, pharmaceuticals and food stuffs made particularly large gains. On the other hand, sharply decreased purchases from abroad of non-electrical equipment and building machinery reflected the impact of the anti-inflationary controls.

Table 10. Switzerland: Foreign Trade
(Seasonally-adjusted monthly average or month, million U.S. dollars)

	1964		1965					
	III	IV	I	II	III	July	Aug.	Sept.
Imports, c.i.f.	302	306	299	301	308	302	310	313
Exports, f.o.b.	225	227	235	244	251	253	245	255
Deficit	-77	-79	-64	-57	-57	-49	-65	-58

Source: OECD, Main Economic Indicators; Neue Zürcher Zeitung.