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Inflation highest for six years

INFLATION in Switzerland during the first quarter of 1981 was equal to an annual rate of 6.3 per cent – the highest for nearly six years. Food prices alone in Switzerland are currently 12.5 per cent above last year's level.

Swiss Economics Minister Hans Honegger – who in January predicted an inflation rate for this year of around 4 per cent – said in April that he did not expect the rate to go much higher than 6 per cent.

The Swiss government had no current plans to introduce price controls, he said – because half of the inflation rate was caused by developments abroad and could not be influenced by such controls. But he indicated that anti-inflation measures would be introduced if the rate continued to rise.

As Swiss Radio International recently informed its worldwide audience: "It's not a bright picture. Calculated on a yearly basis, price increases in the first quarter of this year are leading us into double digit inflation.

"It's obvious that outside factors beyond our control have had their effect. The strong showing of the dollar, for example, influences the prices of our imports. But there are domestic causes of inflation, notably in the construction and food sectors.

"And the recent increases in mortgages are going to give us a few nasty surprises. It's going to be some time before the turbulence on the price front calms down."

The Swiss Bank Corporation warned in its recent annual report: "Signs that prices are calming down are still few and far between. External influences and the weaker Swiss franc are only partly to blame for the length of time it is taking to bring inflation to a standstill.

"Swiss producers are seizing the opportunities presented by the country's robust economy not only to pass on their higher costs but also to achieve some improvement in their straitened margins."

The bank also expressed concern at the effect of increasing inflation on bank savings levels.

"For the first time in decades 1980 saw a reduction in the amount of funds held in Swiss savings and deposit book accounts, as customers shifted their money into better-yielding investments," it revealed.

"The situation today is one of intense competition between the various forms of saving, and the savers themselves have become much more conscious of inflation and interests rates than they were a few years ago."

'Outlook poor', warns the bank

THE economic outlook for Switzerland shows signs of deterioration, the Swiss Bank Corporation warns in its annual report.

It recalls that at the beginning of last year Switzerland hardly seemed to be affected by the economic slump in Western Europe and North America.

But it adds: "In the closing months of the year, however, the Swiss economy also started losing momentum. There were more and more indications that the recessive tendencies in other countries would gradually spill over into Switzerland.

"Orders slowed down heavily in the course of the year, particularly from abroad. In the second half of 1980, new orders were only marginally higher than the preceding year's level, if not in fact falling short of the earlier figure, while production was maintained at a slightly higher pace than in 1979 and order books consequently shrank as the backlog was worked down. At the end of the year there were instances of involuntary stockbuilding."

The construction and export industries remained strong sectors of the Swiss economy, notes the SBC report. But here, too, there were negative signs:

"The construction industry proved to be a major economic prop in 1980, with building activity at a peak all through the year. Residential housing continued to stand in the foreground, with the emphasis shifting somewhat from single-family to multi-family construction.

"The first signs of saturation began to appear in the market for single-family housing (where the boom has lasted the longest), influenced by rising construction costs and land prices and the spring mortgage-rate increase.

"In the industrial sector the willingness to invest in bricks and mortar was bolstered by the favourable course of business. In Switzerland, as abroad, the key consideration was the pressure to rationalise operations.

"Exports represented another pillar of the Swiss economy, with a real increase of around 6 per cent. Thanks to a slightly softer Swiss franc and relatively low inflation rates by international standards, the competitive position of Swiss industry improved and the decline in foreign demand was kept within narrower bounds than it was for most other industrial countries. The growth rates nevertheless dropped off from quarter to quarter as a result of the slower world economy.

"The business slump in Switzerland's main trading partners was most apparent in the demand for consumer goods and semimanufactures, whereas capital goods were largely able to sustain their growth momentum.

"Partly as a consequence of the higher oil prices but also because of the brisk Swiss economy, imports grew faster than exports in both nominal and price-adjusted terms to produce a record trade deficit of Sfr. 11.3 billion for the year.

"Since this was not covered by the surplus earned on services and investments, 1980 closed with a balance-of-payments deficit on current account for the first time since 1965 – an estimated shortfall of one billion Swiss francs."