

Decision makers at central banks need reliable and up-to-date information in order to be able to form a view of the state of the economy. Several central banks therefore conduct their own qualitative surveys to complement other decision-making data. In this Economic Commentary we show how the Riksbank's own business survey reflects the development of the economy in Sweden. We also give concrete examples of how the Riksbank's business survey have created a deeper understanding of various current economic issues and contributed to a broader basis for monetary-policy decision-making.

The business survey complements other decision-making data

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Great need for reliable data

Decision-makers at central banks rely on a range of data and background material when they make their policy decisions. Official statistics represent one important source of information. However, a lot of statistical data only becomes available after a long time lag and is revised often. One example is the National Accounts, which are released two months after the reference date and are revised on an ongoing basis in accordance with Statistic Sweden's revision policy.¹

Another problem is that there is information that cannot be gleaned from traditional statistics but that is still of interest to decision-makers. This may, for example, relate to how the companies and households perceive the economic climate at a given point in time, their expectations of the future course of development and how they plan to act on the basis of these preconditions.

Qualitative surveys common

In order to complement traditional decision-making data, central banks around the world have developed a range of surveys.² The aims of these surveys differ from different central banks, but they all share the fact that they investigate matters that are difficult to study in any other way. Examples of such surveys include bank lending surveys, inflation surveys and business surveys.

These qualitative surveys focus on capturing the respondents explanations of various phenomena and how they plan to act against the background of the prevailing conditions. The information collected is unique and reflects how households and companies act and react to changes in the economy. The information is also context-specific, which means that it is not revised in the future when new data becomes available, as it relates to the respondents' assessments of the situation at a specific point in time.

It is common that the surveys quantify the responses and create various indexes and time series for these. The indexes are often used as early indicators when no actual statistics are available,³ or are used to describe phenomena that are not directly observable, for example the business cycle.

1. http://www.scb.se/Statistik/NR/NR0103/_dokument/Revideringspolicy_NR_20121114.pdf.

2. Examples are the Bank of England Regional Agents' Summary, the Bank of Canada Business Outlook Survey, the European Central Bank's Bank Lending Survey, the Federal Reserve's Senior Loan Officer Opinion Survey, the Bank of Korea's Golden Book and the Reserve Bank of Australia's Liaison Program.

3. See for example Andersson and den Reijer (2015) on how such indexes can be used for forecasting purposes.

The subject of qualitative data has not received much attention in economic analysis, although interest has increased since the Great Recession.⁴ At the Riksbank too, interest in the results of our own business survey has increased in recent years.⁵

The Riksbank's own business survey

The Riksbank's business survey is a qualitative survey aimed at large Swedish companies and has been conducted since 2007. The aim of the survey is to gather reliable information on the business cycle and the development of prices, and to discuss current issues of interest to the Riksbank's analysis. The responses for approximately half of the questions in the survey are given a numerical value on a three-point scale. In addition, the Riksbank analyses the explanations the companies give as to why development has followed a particular course and why they expect development to follow a particular course in the future.

The sample for the survey is relatively small, with only approximately 40 companies per survey round, but despite this it has proved able to give a good overview of economic activity in Sweden. For a detailed description of the survey, see Hokkanen, Melin and Nilsson (2012).

Strong link between statistics and the net figures from the survey

Business surveys conducted by other central banks have proved able to reflect actual developments in various parts of the economy, and the indicator of economic activity created using the responses in the Riksbank's business survey is no exception.⁶

But what is the situation for the individual questions in the Riksbank's business survey and how well do they covary with comparable statistics?

Figures 1-6 show the links between net figures from the business survey and the actual development of the statistical aggregates for, among other things, GDP, export volumes and investment.⁷ If a question is forward-looking, the responses to this question are compared with actual developments a quarter or six months later, depending on the time period the question relates to. In the case of questions that relate to changes between two quarters the responses are compared with quarterly growth. Responses to questions that do not refer to any specific period are compared with annual growth.

In general, the link between the net figures from the survey and the corresponding official statistics is relatively strong. This applies to the questions that relate to the situation just now and to the companies' expectations of the future course of development. The relatively strong link between the net figures from the business survey and the official statistics indicates that the open responses in the interviews may also contain important information.

Main headings reflect developments well

One way of analysing the qualitative information that cannot be converted into net figures in the business survey is to compare the main headings from the business survey with some other summarising economic time series. The idea is that the main headings summarise every round of interviews and that every survey reflects the

4. <http://www.wsj.com/articles/in-canada-a-central-bankers-unusual-approach-1405287298>.

5. Since 2013, the business survey has been mentioned in the minutes of every monetary policy meeting when such a survey has been published. When the survey is mentioned it is usually in connection with members of the Executive Board presenting their own views on economic developments.

6. Ellis and Pike, (2005), Brekke and Halvorsen (2009), Pichette and Rennison (2011), Hokkanen, Melin and Nilsson (2012) and the Reserve Bank of Australia (2014).

7. Figure 1 shows GDP and the companies' assessment of the economic climate, figure 2 shows export volumes and net figures for the production/sales questions, Figure 3 shows employment according to the labour force surveys and the employment questions, Figure 4 shows profit shares and the profitability question, Figure 5 shows gross fixed capital formation and investment plans and Figure 6 shows labour productivity and the productivity question.

economy. In this example we have used the output gap (GDP's deviation in per cent from its potential level) and the main headings from every business survey, see Figure 7.

The comparison shows that the main headings describe the actual course of development well. In September 2007, the main heading was "Expansion in all business sectors". During this period, GDP was far above its potential and increased thereafter. In May 2008, the heading was "Economic activity slowing down and costs rising" and the positive output gap began to shrink and thereafter to fall below its potential.

In December 2009, the heading was "We are slowly moving in the right direction, but from low levels" and thereafter the GDP gap approached a normal level of resource utilisation for several quarters. However, in January 2012 the GDP gap became negative once again and the heading in the business survey was then "Cutbacks in a weak economic climate".

Since January 2012, the headings have indicated weak growth ("No clear course for economic activity", "Economy picking up in anticipation of upturn", "No impending improvement in economic activity", "Companies remain hopeful but growth still sluggish", "Recovery continues but uncertainty remains") and GDP has still not returned to its potential level.

Interviews contribute to a greater understanding

One reason why we conduct interviews instead of for example circulating questionnaires is that it gives us the opportunity to gain a greater understanding of structural changes, new trends and problem areas that we knew little about beforehand. Asking questions about something you know nothing about is by its very nature impossible. Neither those who design the survey nor the interviewer know what they should ask about. This is why the semi-structured form of the interviews in the business survey is so decisive. It makes it possible to discuss matters that the respondent thinks is important but that are not directly covered by the list of questions for the interviews.

Below we briefly present some of the themes that have spontaneously come up in discussions with the companies and that we have written about in the reports entitled "The Riksbank's Business Survey".

Rapid impact of commodity price increases

In 2008, there was a dramatic increase in various commodity prices and this affected the cost structure for Swedish companies. When individual cost items increase rapidly it is not always self-evident what affect this will have on the companies' prices in the short term. Costs are either passed on to the customers in the form of higher prices or the companies' margins shrink. In addition, forward contracts are often used and these can delay the effects of a rapid increase in costs.

In the survey conducted in September 2008, we discussed the effects of the increase in commodity prices on the companies' pricing.⁸ It became evident that the changes in commodity prices had a rapid impact on the companies' costs and that in many cases these costs were passed on to the end consumers. However, the decisive factor was the high level of demand for the companies' products and services. If demand had fallen instead of remaining constant – or increasing – the cost increases would have hit the companies margins instead of affecting their prices.

Some companies acting as banks for other companies

At the end of 2008, more small and medium-sized companies in Sweden and the rest of Europe were finding it difficult to fund their operations as a result of credit-tightening measures by the banks and credit institutions. As small companies are often suppliers or subcontractors to large companies, this credit tightening also indirectly affected the companies interviewed in the business survey.

8. Monetary Policy Report 2008:3, page 52.

The respondents reported how they were dealing with these problems.⁹ In order to ensure supplies in the immediate future the companies were acting as banks for the small companies. This meant that they guaranteed part of their subcontractors' loans and, when this was not enough, also purchased raw materials for the subcontractors. In this way the large companies ensured that they would receive supplies of important components and thanks to this their subcontractors could survive despite a shortage of liquidity.

Manning in the future: “wait and see”

In recent years, temporary employment agencies have become increasingly common in the Swedish business sector. According to the companies in the Riksbank's business survey, the reason for this is that they now need a more flexible labour force to deal with up- and downturns in the economic climate.

In the survey conducted in September 2009, companies in above all the manufacturing industry reported that they would not recruit employees on a permanent basis in the near future.¹⁰ They would instead meet their future manning needs by using temporary employment agencies until the economic prospects became clearer. In early 2010, GDP increased and growth in the manning segment was significantly higher than in the business sector as a whole.¹¹

In the same survey, other companies described alternative strategies for managing redundancy in the labour force. One of these strategies was simply to retain the majority of the employees and “weather the storm with surplus staff”. The reason why companies chose this strategy was their assessment that it would be more expensive to give notice and make large parts of their labour forces redundant and then recruit again when the upturn came. Ensuring access to skilled workers in the future was deemed to be more important than reducing costs in the short term.

Investment plans in the medium term

According to the National Accounts, gross fixed capital formation has grown slowly since the crisis years 2008-2009. In the survey conducted in January 2014, the companies were therefore specifically asked whether they planned to invest more or less in Sweden in the slightly longer term and what factors affected their investment decisions.¹² The results indicated that most of the companies planned to reduce their investment, mainly due to the prolonged and slow recovery in the euro area. Increased uncertainty about future demand meant that the companies were unable to plan their long-term investment, which meant that the investment perspective was shorter than previously.

Labour-intensive sectors often reported that they planned to invest more abroad than in Sweden. This was partly due to the high wage costs and the unfavourable exchange rate in Sweden, but mainly due to the companies wanting to produce closer to their end markets. Knowledge-intensive sectors generally planned to invest more in Sweden than abroad, as the labour they require is largely located here. The commodities-based sectors did not plan to invest more abroad than in Sweden either, but reported that the rate of investment as a whole would slow down, above all due to a falling trend in the demand for their products.

The business survey – a flexible tool

One advantage of an interview-based survey is its flexibility. The survey can at short notice be adapted to specific issues that are of interest from a policy point of view and, if necessary, be targeted at the specific sectors and companies that are best suited to answering the questions. Below we describe how the Riksbank has used the business survey to gain a better understanding of various issues.

9. The Riksbank's company interviews, January 2008 - January 2009, page 8.

10. The Riksbank's company interviews in September 2009, pages 10-11.

11. <http://www.konj.se/download/18.2e23b662137d88fc6f71c60/>

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12. The Riksbank's Business Survey in January 2014, pages 4-5.

Access to funding during the financial crisis

In 2009, there was general concern that Swedish companies were not getting the funding they needed to keep their operations going. In order to quickly get information on the companies' funding situation, the Riksbank designed a special questionnaire that was circulated to 210 companies that had previously participated in the business survey. The results of this questionnaire indicated that the majority of the Swedish companies participating in the survey were getting the funding they needed. On the other hand, the terms and conditions for the funding were not as favourable as normal. This was mainly because the banks were unwilling to lend to the companies, but also because the profitability of the companies had declined.¹³

The survey facilitated the Riksbank's analysis of the corporate sector by providing rapid and up-to-date information on the companies funding conditions and on the extent of the banks' credit crunch.

The companies' margins and price and cost increases

Inflation in Sweden, measured in terms of the CPI, has been around zero per cent since the beginning of 2013. The fact that prices are increasing relatively slowly when resource utilisation in the economy is lower than normal is not in itself remarkable. But in 2013 and 2014 there were also elements in the development of inflation that were not easily explained, even with hindsight.

In order to better understand the factors affecting the companies' pricing decisions, which ultimately affect inflation, the Riksbank circulated an extensive questionnaire to approximately 1,500 companies in April 2014. The business surveys in May and September were also extended to include more companies in the retail and service sectors and focused on the companies' sales prices, costs and margins.

The surveys showed that cost increases had been lower than normal, which was due to low costs for purchases and wages.¹⁴ This was partly an effect of low costs for foreign goods due to generally low world-market prices, but also an effect of a relatively strong krona earlier in the year. However, this primarily applied to the largest companies in Sweden and not necessarily to the smaller ones.

The results of the extensive survey revealed that shrinking margins, rather than low cost increases, were the explanation for the low price increases.¹⁵ This supported the conclusion that large companies had been able to squeeze the prices offered by their suppliers who in their turn had not been able to do the same. Small companies were therefore forced to accept lower margins as long as demand was weak and competition fierce.

Interviews are a learning process

The interaction between the Riksbank's economists and the representatives of the companies provides the Riksbank with context-specific and detailed information on current events and structural changes in the economy. This data is analysed and presented only a few days after the completion of the final interview and is thus a rapid and reliable source of information. However, it is not only as a collection of data that the business survey improves analysis at the Riksbank. The fact that we use our own staff to conduct the survey means that the data collection process is also a way of learning. As the economists who interview the company representatives are the same economists who work with forecasts, economic modelling and policy analysis, the knowledge they acquire in their meetings with the companies (both consciously and unconsciously) translates into better analyses of the economy.

In a changing world where historical relationships do not always act as a guide to future developments it is important to use several different types and sources of data as a basis for policy decisions. The business survey provides one such basis and

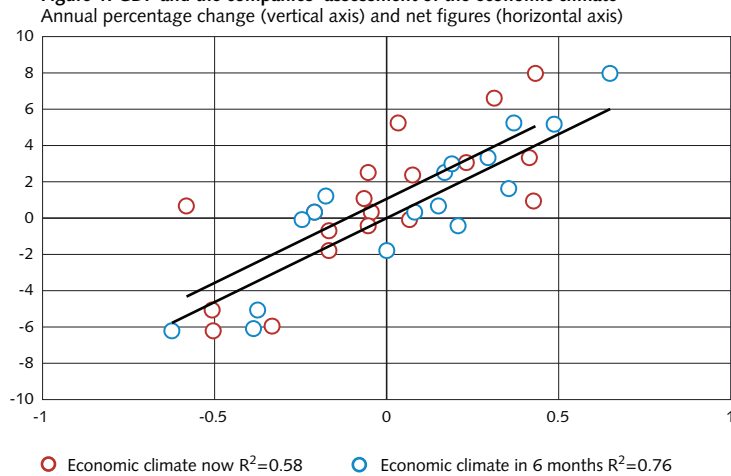
13. http://www.riksbank.se/Pagefolders/40429/fin_enkat_mars_09_sv.pdf.

14. The Riksbank's Business Survey in May 2014, pages 7-9 and the Riksbank's Business Survey in September 2014, pages 6-7.

15. Apel, Frohm, Hokkanen, Nyman and Palmqvist (2014).

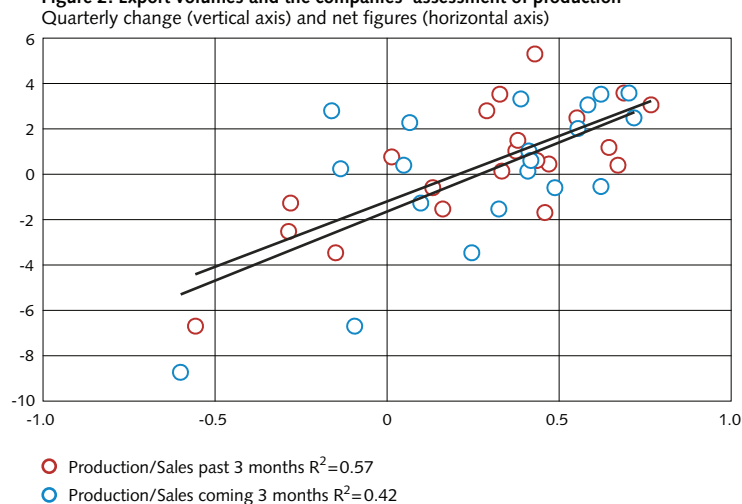
complements other types of analysis at the Riksbank. It deepens our understanding of how the economy works and is a flexible tool for investigating a range of issues. It is therefore important that the business survey continues to develop and remains an integral part of the Riksbank's ongoing work.

Figure 1. GDP and the companies' assessment of the economic climate



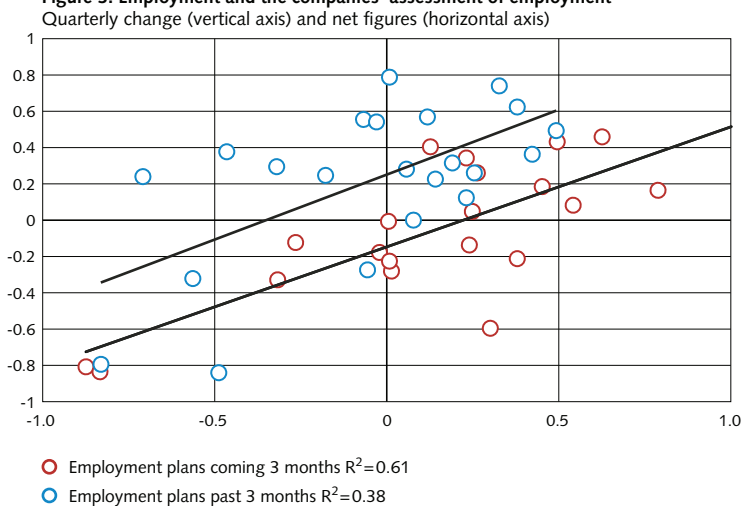
Sources: The Riksbank and Statistics Sweden

Figure 2. Export volumes and the companies' assessment of production



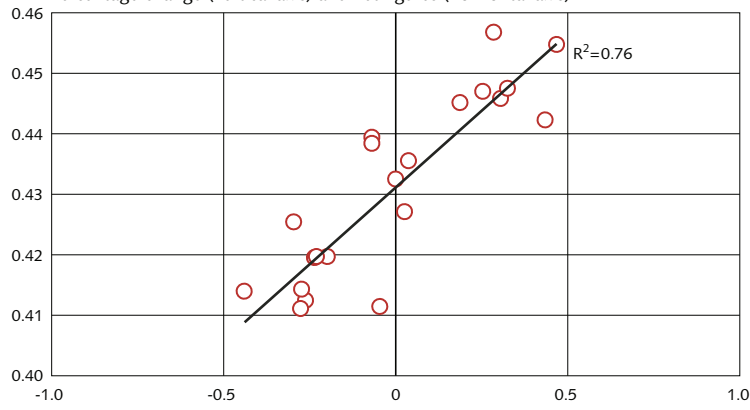
Sources: The Riksbank and Statistics Sweden

Figure 3. Employment and the companies' assessment of employment



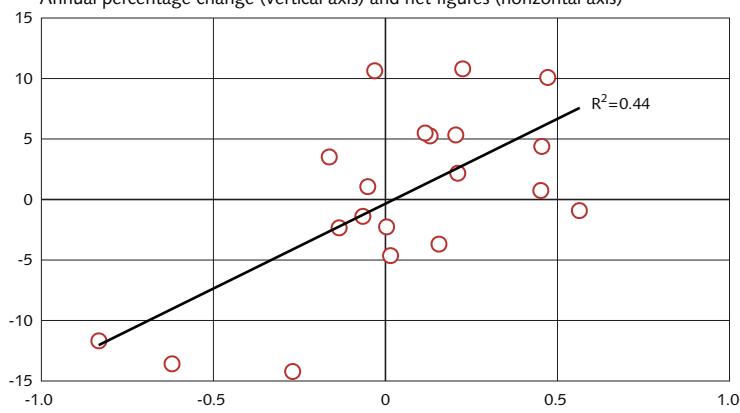
Sources: The Riksbank and Statistics Sweden

Figure 4. Profit share and the companies' assessment of profitability
 Percentage change (vertical axis) and net figures (horizontal axis)



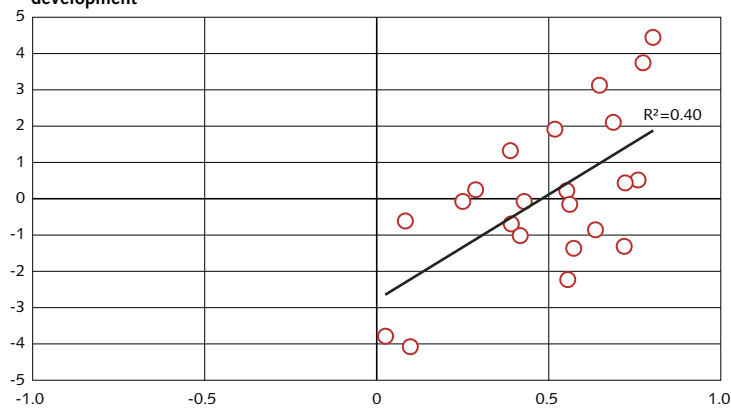
Sources: The Riksbank and Statistics Sweden

Figure 5. Gross fixed capital formation and the companies' investment plans
 Annual percentage change (vertical axis) and net figures (horizontal axis)



Sources: The Riksbank and Statistics Sweden

Figure 6. Labour productivity and the companies' assessment of productivity development



Sources: The Riksbank and Statistics Sweden

Figure 7. The output gap and main headings from the Business Survey reports



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