



# The Riksbank's Company Interviews

MAY 2012



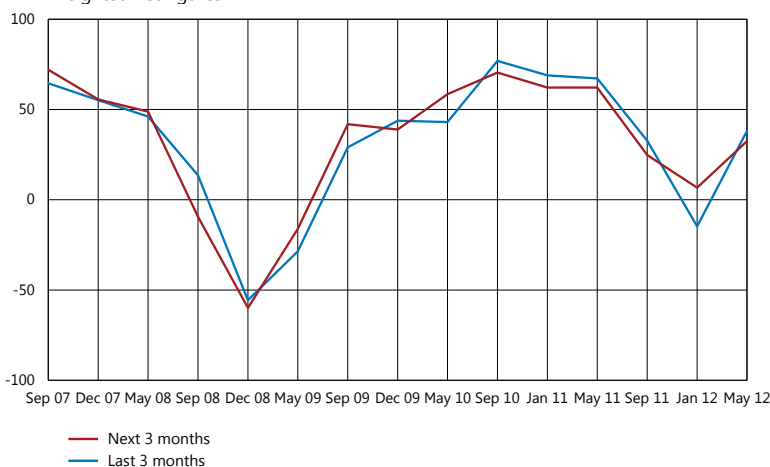
## ■ The Riksbank's company interviews in May 2012

### No clear course for economic activity

*The Riksbank's company interviews in May 2012 reveal a difference in the level of activity in different parts of the economy.<sup>1</sup> The exporting companies are troubled by the uncertainty concerning developments in the euro area, while domestic demand has improved slightly since the previous survey in January. Although the companies seem somewhat hopeful that economic activity will improve in the period ahead, there are few concrete signs that this will actually be the case. New orders in the manufacturing industry are not increasing and nor are most of the companies planning to increase their workforces. Uncertainty concerning demand, the indirect effects of a strong exchange rate and subdued world-market prices are holding back price increases.*

The interviewed Swedish companies are divided in their assessment of the economic climate. The export companies are affected by the uneasy situation in Europe, with relatively weak demand and

**Figure 1. Sales/production**  
Weighted net figures



Note. Weighted net figures are based on the number of employees in Sweden at the interviewed companies. The question relates to the companies' assessment of production/sales over the last three months and in the three months ahead compared with the immediately preceding three-month period. The net figures in the diagram represent the balance between the percentage of responses that production/sales have increased (positive net figures) or decreased (negative net figures).

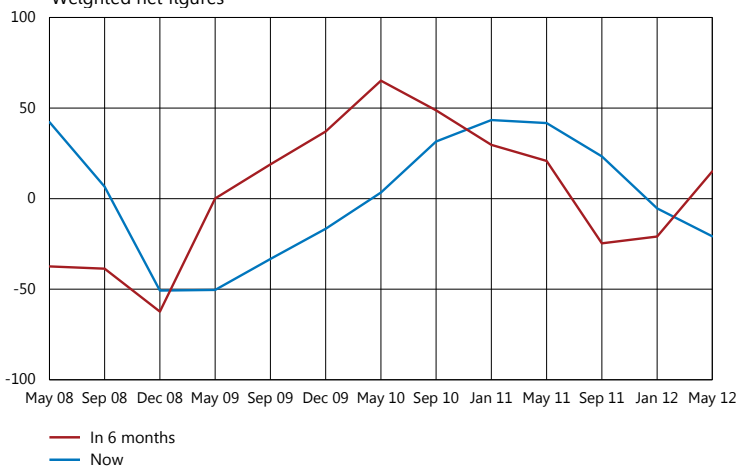
<sup>1</sup> This report presents the results of the interviews that were mainly conducted in May 2012. The 42 interviewed companies have a total of approximately 260 000 employees in Sweden.

customers who are waiting to see how the situation develops. Domestic demand is stronger, with an improved situation for the construction and retail sectors and parts of the service sector. Overall, the companies say that production and sales have increased over the last quarter compared to the previous quarter (see Figure 1). However, several companies point out in the interviews that sales and new orders have been weak recently. The companies also say that it has never been more difficult to predict the future course of development and that the planning horizon is now very short.

### HOPES FOR IMPROVED ECONOMIC ACTIVITY

Although production has increased the companies are pessimistic about economic activity, which in their assessment has weakened further since the previous survey (see Figure 2). Nevertheless, this is the first time for a year that a majority of the companies believe that the situation will improve over the next six months. However, the companies seem to base this assessment more on hope than on clear signs of an improvement. Almost all of the companies also believe that the weak economic climate entails greater risks than normal and that the risks mainly relate to the financial situation in the euro area.

**Figure 2. The economic climate**  
Weighted net figures



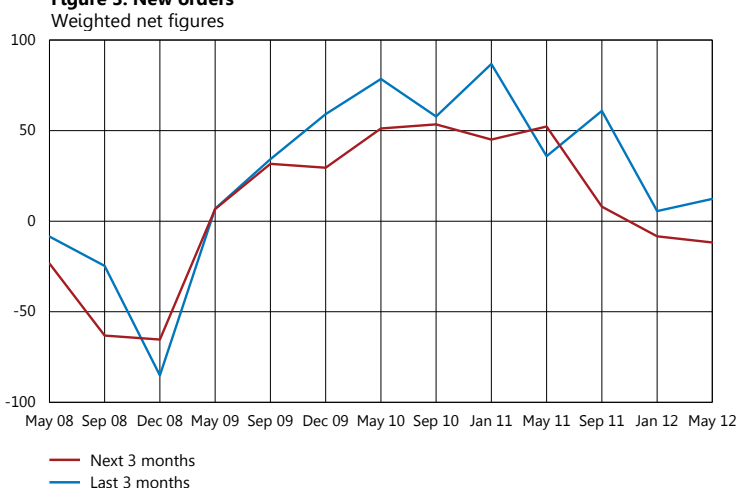
Note. Weighted net figures are based on the number of employees in Sweden at the interviewed companies. The question concerns the companies' assessment of the economic climate now and in six months' time. The net figures in the diagram represent the balance between the percentage of responses that the economic climate is good (positive net figures) or bad (negative net figures). For the question concerning the economic climate in six months' time the net figures represent the balance between the percentage of responses that the economic climate will improve (positive net figures) or get worse (negative net figures).

### NEW ORDERS DO NOT INDICATE AN UPTURN

As previously, the companies believe that the potential for a rapid recovery is very high if the unease and uncertainty of consumers and

customers recede. The companies' assessment is that there is good underlying demand but that this is being hampered by the uncertain situation. The companies see few concrete signs that the situation will improve (see Figure 3). Although there is a large order stock in the construction industry that is generating increased production and employment, many companies are very worried about new orders in the future, above all for the construction of housing. Here it is once again the effects of consumer concern that are said to be affecting demand. The view of new orders is not as pessimistic in the manufacturing industry, but the companies see no signs of an impending recovery in this sector either.

**Figure 3. New orders**



Note. Weighted net figures are based on the number of employees in Sweden at the interviewed companies. The question relates to the construction and manufacturing companies' assessments of new orders over the last three months and in the three months ahead compared with the immediately preceding three-month period. The net figures in the diagram represent the balance between the percentage of responses that new orders have increased (positive net figures) or decreased (negative net figures).

Demand abroad is also unevenly distributed. Europe and Latin America are marked by weak demand, while there are increasing signs that the US economy is improving. Asia has become an increasingly important export market and development there is characterised as robust. The companies are not exactly worried about economic development in China, but they fear that lower growth could affect the demand for investment goods, which in turn would have an impact on Swedish exports.

The uncertain situation on the export markets does not appear to have restricted the investment plans of the manufacturing industry. The companies' investments are expected to continue increasing and to follow the long-term plans. In addition to the usual replacement of

plant and machinery, these also comprise expanding capacity and developing new products.

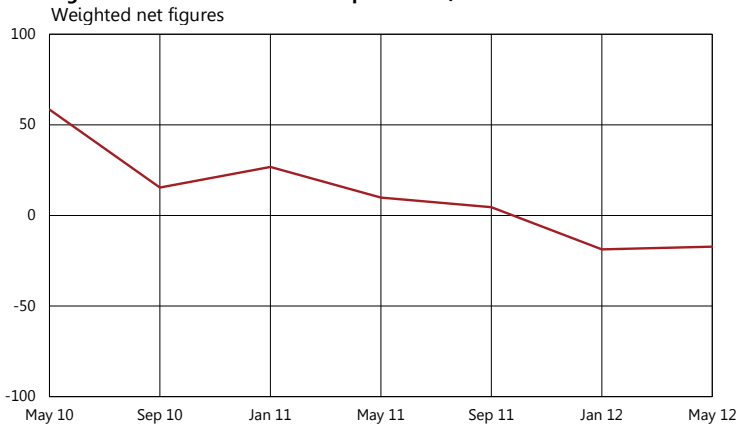
Access to external funding is largely unchanged compared to January, although the situation regarding bank funding is still somewhat sluggish. "The stress has hit pricing rather than access" was one company's comment on bank borrowing. Several of the large companies say that more expensive bank borrowing has led them to seek alternative sources of funding, for example on the market for corporate bonds.

The companies are well able to increase production at short notice in the event of a sudden increase in demand. The companies also say that a shortage of labour is not a problem and that it is relatively easy to recruit the workers they need, with the exception of those with certain special skills. All-in-all, this indicates that the companies have ample spare capacity and it appears that neither capacity restrictions nor labour shortages impose any limitations on increased production and sales in the short term.

#### "IF SALES FALL OFF, WE WILL REDUCE HOURS STRAIGHT AWAY"

The companies have increased their workforces somewhat in recent months but their plans for the next three months do not indicate any major changes. As in January, the companies say that their workforces are slightly too large in relation to the level of demand (see Figure 4) and they are prepared to make rapid changes if demand weakens. The development of employment differs from sector to sector. The construction companies have increased their workforces as a result of increased production and intend to continue to recruit in line with their expectation that production will continue to increase. In other sectors, however, many companies appear to be considering rationalisation and streamlining measures. In the retail sector, rationalisation measures are being implemented both in the shops themselves and among office staff, but alongside this the companies are also investing in new shops, which in total is expected to mean that the workforce will remain unchanged over the next three months. Several of the manufacturing companies intend to make some cuts over the next three months, which will primarily affect those who are not permanently employed.

**Figure 4. Workforce in relation to production/sales**



Note. Weighted net figures are based on the number of employees in Sweden at the interviewed companies. The question relates to the companies' assessments of the size of the workforce in relation to production/sales. The net figures in the diagram represent the balance between the percentage of responses that the workforce is too small (positive net figures) or too large (negative net figures).

The reduced employers' contributions for younger and older employees have had very little impact on the companies' employment decisions. The companies employ people who have the skills that they need, irrespective of whether these people are covered by various subsidies or not. This is particularly evident among the manufacturing and construction companies. On the other hand, a minority of the companies in the retail sector and the other services sector say that these subsidies are important to them. As a rule, these companies also have a larger proportion of young employees in relatively low-skilled jobs. The cut in VAT in the restaurant sector at the turn of the year is said to have had a clear effect in the form of lower prices, increased demand and more employees in parts of the sector.

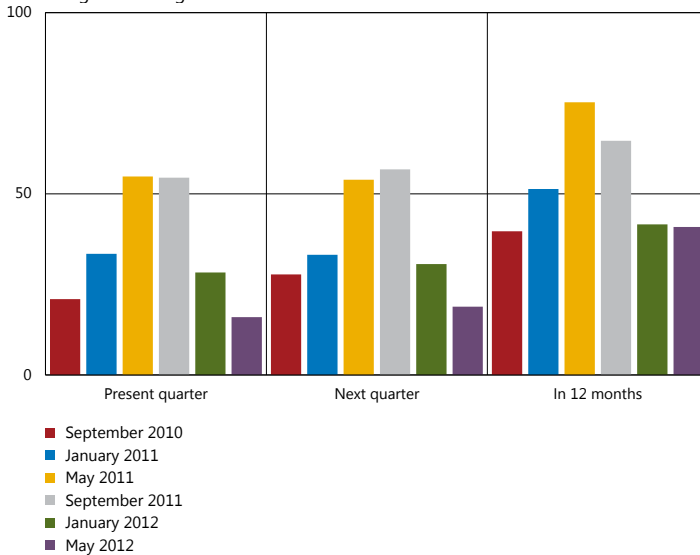
#### "WAGE AGREEMENTS WERE TOO HIGH"

Wages costs are regarded as a bigger problem now than in January due to the weaker economic climate. The increased wage costs, together with the strong krona, are of concern to the export companies in particular. Several companies also say that no other costs are increasing to the same extent as wage costs. The companies' assessment is that their own productivity is not developing as strongly as previously, which tends to make the cost situation even more problematic. One company described the situation as follows: "Previously we have been able to compensate for increased wage costs by increasing productivity, but we can't do this when markets are weakening".

## “THE CONSUMERS RULE, AND THEY’RE NOT PREPARED TO PAY”

Most of the companies see very little scope for price increases and the percentage of companies that plan to increase their prices over the next 12 months has fallen by half since May 2011 (see Figure 5). Price increases will be subdued particularly in the current and the next quarter. The companies often find it difficult to give a clear picture of their pricing plans 12 months ahead because, as one company put it, “the view is very short-term at the moment”.

**Figure 5. Pricing plans**  
Weighted net figures



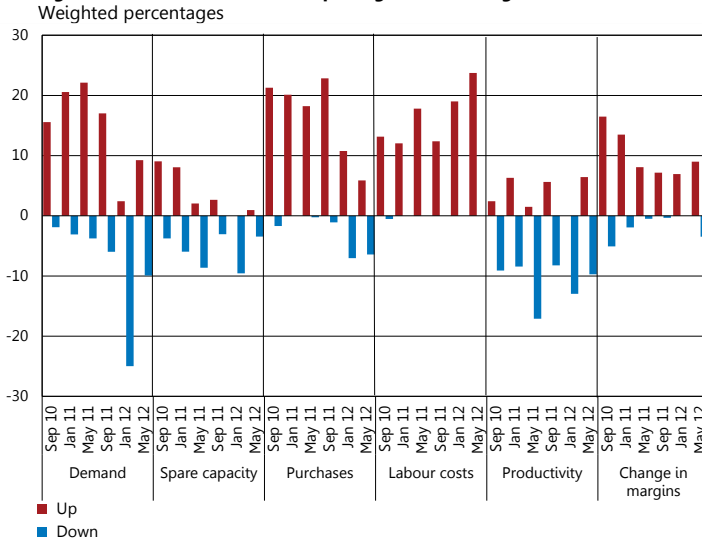
Note. Weighted net figures are based on the number of employees in Sweden at the interviewed companies. The columns show the net percentage of companies that intend to increase their prices during the present quarter, next quarter or next 12 months. Each of the columns represents responses in one particular survey.

It seems that the retail sector is finding it most difficult to increase prices due to fierce competition on the market. This is also one of the factors that prevent the companies increasing their profitability even though purchasing prices are falling. “The competitive situation means that the margins from the lower purchasing costs will benefit the customers” and “there will be a price war to the bitter end” were two of the comments made.

Figure 6 shows the factors that will affect pricing plans over the next 12 months and whether these factors will have an upward impact (red column) or a downward impact (blue column) on prices. The trend shows that fewer and fewer companies are planning to raise their prices in the 12 months ahead in the light of the demand situation and the development of prices for purchased goods and input goods. The weaker demand situation also means that few companies see any potential for improving their margins.



**Figure 6. Factors that will affect pricing in the coming twelve months**



Note. Weighted percentages based on the number of employees in Sweden at the interviewed companies. The columns show the relative percentages for the different factors affecting prices upwards or downwards 12 months ahead in different surveys between September 2010 and May 2012.

Higher wage costs are the most common reason for increasing prices. In May, the impact of wage costs on prices was particularly clear in the retail sector and the other services sector, as the companies believe that the wage agreements were too expensive. Approximately the same number of companies said that demand will have an upward effect on prices as those that said it will have a downward effect. The same applies to costs for purchased goods and input goods. There is some division between the different business sectors here too; the manufacturing companies generally say that demand will create scope for price increases over the next 12 months, while the retail sector sees demand as a factor that will squeeze prices. The manufacturing companies say instead that the strong krona makes it difficult to push through price increases. A common comment on the development of prices is that the companies in general must improve their productivity instead of increasing their prices.





Sveriges riksbank  
102 37 Stockholm

Tel 08-787 00 00  
Fax 08-21 05 31  
[registratorn@riksbank.se](mailto:registratorn@riksbank.se)  
[www.riksbank.se](http://www.riksbank.se)