



The Riksbank's Company Survey

SEPTEMBER 2012

■ The Riksbank's company survey in September 2012

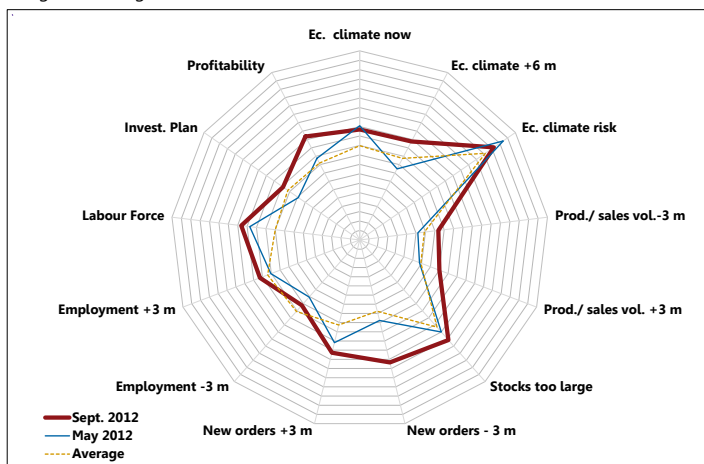
DOWNTURN IN ECONOMIC ACTIVITY AND PRICES

The Riksbank's company survey in September¹ shows that the economic outlook has deteriorated since the previous survey in May. Many companies are concerned about reduced prices and their assessments of production, profitability and new orders indicate a downturn in economic activity. The strong Swedish krona entails fiercer competition for the export companies and some industrial sectors are experiencing very tangible problems. The situation for the retail sector is relatively unchanged; households remain cautious. The combination of weak demand and a strong krona is exerting downward pressure on prices, which is particularly evident in the manufacturing industry.

The companies have in general become more pessimistic about the development of the economy compared with the preceding survey in May, as can be seen in Figure 1. The responses to the questions are set out along the "spokes" in Figure 1 and a net figure further from the

Figure 1. The pattern of responses

Weighted net figures



Note. The net figures represent the balance between positive and negative responses and these are weighted on the basis of the number of employees in Sweden at the interviewed companies. The overview shows the responses to most of the questions in the company surveys. The responses to the various questions are placed along the "spokes". The latest three months are designated -3m and the next three months as +3m. The questions were published on 2 February 2009 and are available on the Riksbank's website. & published /Reports/The Riksbank's Company Interviews./

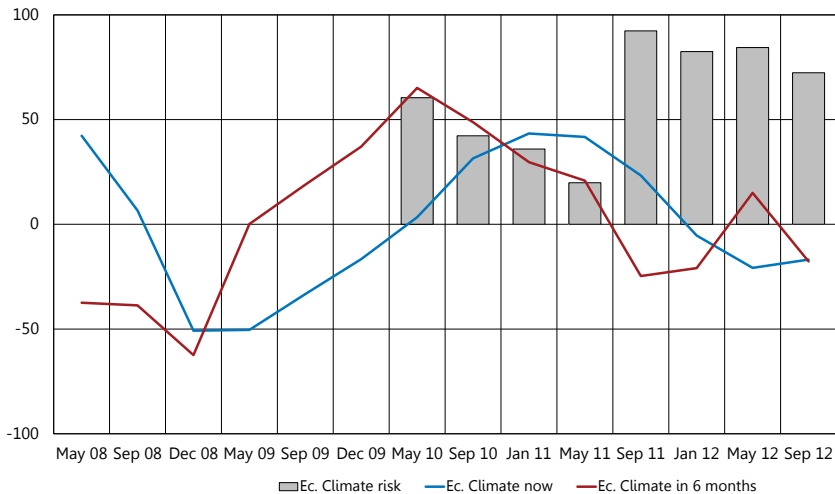
¹ This report presents the results of the interviews that were mainly conducted between 27 August and 12 September. The 42 interviewed companies have a total of approximately 260 000 employees in Sweden.

centre entails a deterioration. The red line represents the current situation, the blue line the preceding survey in May and the broken yellow line is an historical average of previous company surveys. The companies' assessments of profitability, new orders and production/sales have clearly worsened since the previous survey in May.

OPTIMISM HAS FADED

In May, the companies were somewhat optimistic about the future development of economic activity but this optimism had now faded (see Figure 2). The companies still feel that economic activity is weak and many of them expect things to get worse in the period ahead. The question about the risks relating to the economic situation was first put in the spring of 2010 when the Greek government was forced to begin negotiations on emergency loans. A sizeable majority of the companies expressed great concern about the economic outlook at that time. This concern faded as the situation stabilised, but increased once again after the summer of 2011 as the debt crisis in Europe continued to run its course. Since then, the risks relating to the economic situation have remained at higher levels than previously.

Figure 2. The economic situation and risks relating to economic activity
Weighted net figures



Note. Weighted net figures are based on the number of employees in Sweden at the interviewed companies. With regard to the companies assessment of the economic situation now and in six months' time, the net figures in the Figure show the balance between the percentage of responses that the economic situation is good or will improve (positive figures), or that it is bad or will get worse (negative net figures). For the question concerning risk relating to the economic situation the net figures show the balance between the percentage of responses that the risks are higher (positive net figures) or lower (negative net figures) than normal.

"MARKET AND VOLUMES TAKING THE WRONG COURSE IN A PERFECT STORM"

The development of the economy continues to be divided, but the slowdown is affecting all sectors. Expectations concerning the future are most subdued in the manufacturing industry and among the construction companies. The picture is not as clear in the retail sector. Several companies in the non-durables sector say that sales are increasing and that they are satisfied with the economic situation. The situation in the retail sector as a whole varies depending on the specific conditions in each segment. For example, retail companies that import from countries with currencies that have weakened against the krona are in a favourable situation. In general, the retail sector says that the consumers have money but they are cautious. Many companies in the sector are frustrated about this and one company commented on the situation by saying: "We have spent the last two years trying to understand how the market works and now we have given up."

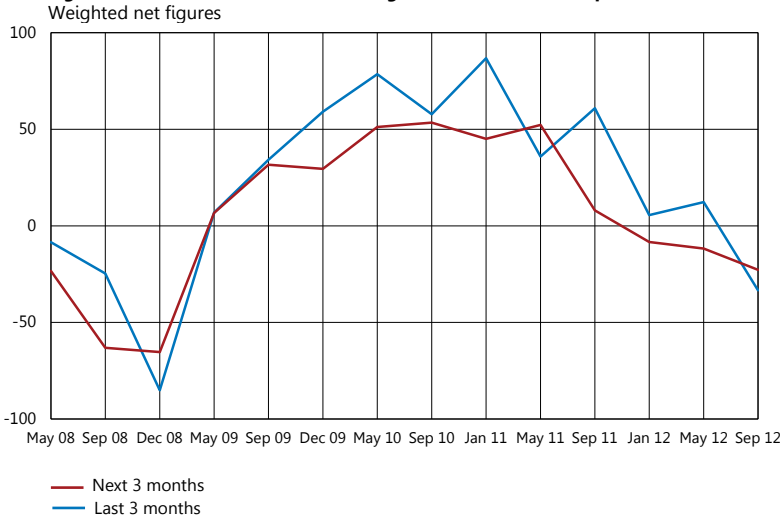
In the case of the export companies, the major European market remains relatively weak and development within this market is also uneven. Development in the southern part of Europe is extremely weak in some cases and growth is also restricted by the difficulties that the Swedish companies' customers and the local Swedish subsidiaries face in getting loans. The signs of a slowdown in China are a further cause for concern. Although business with or exports to China are not predominant parts of their operations, the companies believe there is a risk of contagion effects on other Asian markets and also potential effects on global demand.

The exchange rate, in combination with insufficient demand, poses serious problems to some industrial sectors. This applies to companies with a relatively low level of processing who are at the same time price takers on the global market.

"STOCKS ARE HIGH, BUT NEW ORDERS LOW"

The level of activity in the construction industry is relatively high at the moment and there is a large stock of orders. The segment that is doing best is civil engineering and infrastructure construction, while the construction of housing is steadily declining. The weak inflow of new orders is the main worry for the construction industry, despite the fact that activity is still high. The construction companies mention stricter demands for down payments, increased demands regarding the percentage of pre-sold housing and the negative psychological

Figure 3. New orders for manufacturing and construction companies



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).

effects of the European debt crisis on households as the most important factors behind the weak development.

The manufacturing and construction companies have been expecting new orders to decrease since the beginning of the year (see Figure 3). It appears that new orders nevertheless continued to increase in 2012 up until May. However, the responses in September indicate that the development of new orders has been weak recently and there is nothing in the companies' responses that indicates a recovery in the near future.

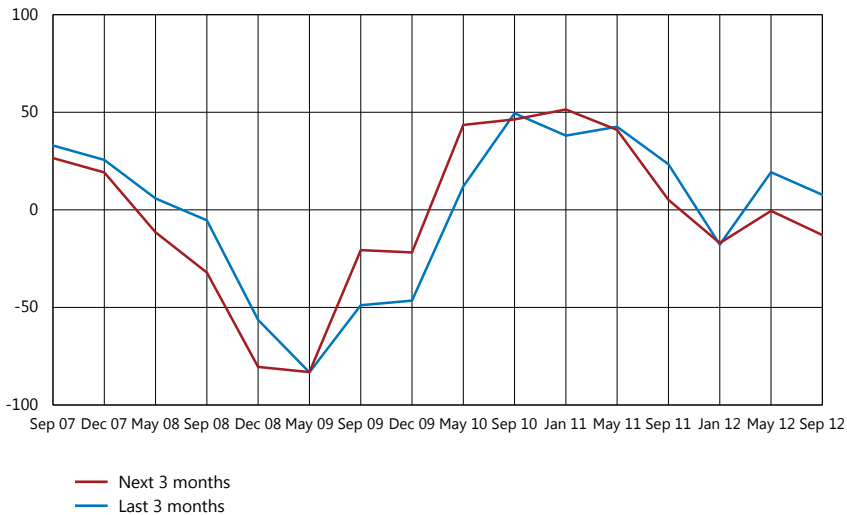
UNCHANGED EMPLOYMENT NOW –A QUESTION MARK LATER

A majority of the companies state that there is still ample spare capacity and that it is relatively easy to recruit personnel. The companies have also increased their workforces somewhat in recent months. However, they plan to reduce the number of employees over the next three months (see Figure 4). Workforces are also characterised in general as being too large given the level of demand and production.

The development of employment partly differs from sector to sector. Over the next three months, the construction sector and the manufacturing sector intend to reduce the number of employees, while some companies in the retail sector expect to recruit new staff.

Most of the companies say that they continue to use employment agencies to cope with temporary peaks in demand, for example due to

Figure 4. Employment
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' assessments regarding employment in the last and the next three months. The net figures in the diagram represent the balance between the percentage of responses that employment has increased (is expected to increase) or decreased (is expected to decrease).

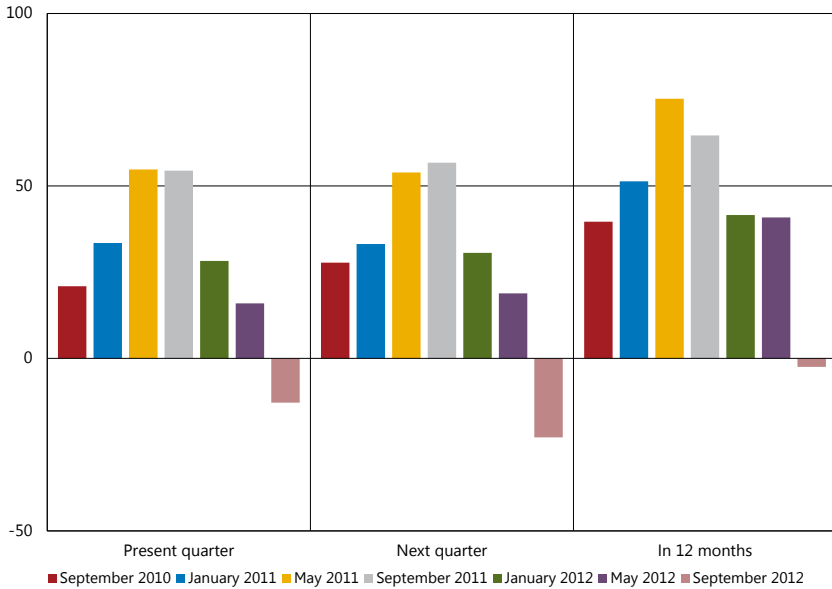
seasonal variations. This is despite the fact that using employment agencies is often a more expensive option in the long term. The companies also use so-called "time banks" and subcontract some parts of their operations in order to handle fluctuations in demand more easily. It appears that production is now more flexible at many companies than it was before the financial crisis. Uncertainty about the future means that the companies must be well prepared to quickly adapt their production.

"UNCHANGED PRICES – WE DON'T THINK THAT'S REALISTIC NOW"

A large proportion of the interviewed companies sell goods and services to other companies and these prices usually fluctuate more than consumer prices. In general, the companies feel that price competition is fierce and they often refer to this in their assessments of price movements. There are also more companies now that expect price reductions rather than price increases (see Figure 5). Although the companies often stress that the situation is highly uncertain, it is clear that there has been a marked change in their price expectations.

Expectations of lower prices are clearest for the present quarter and the next quarter. There is also a slight majority that indicates that prices will continue to fall over the next 12 months. Several companies expressed the hope that they would be able to leave prices unchanged, but they also feared that this would not be possible. As

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/reduce their prices during the present quarter, next quarter or next 12 months. Each of the columns represents responses in one particular survey.

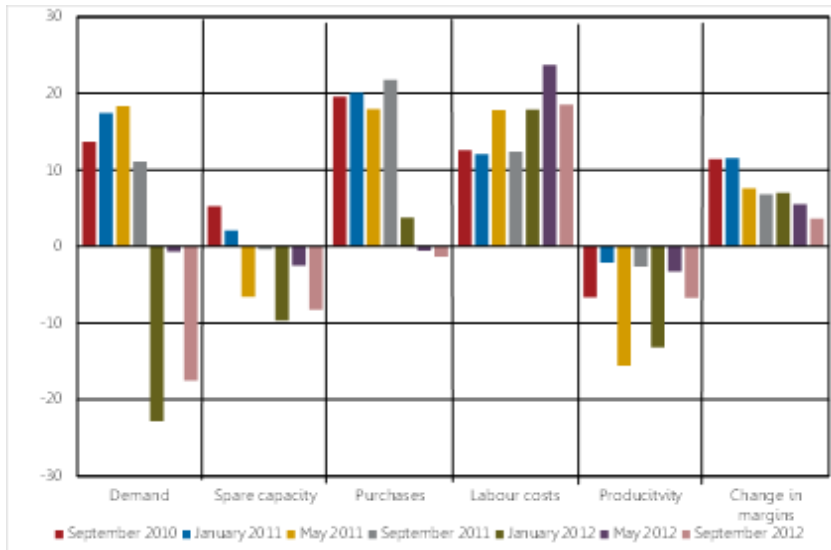
once company said: "The plan is zero, but we don't believe this is realistic as things stand."

The picture is somewhat different for the retail companies. These companies generally expect to see price increases over the next 12 months. However, retail companies also stress that fierce competition sets tight limits for price increases. Many of them expect that they will reduce the prices of imported goods wholly or partly in line with the corresponding changes in exchange rates.

MARGINS SQUEEZED

The factors that will affect the companies' pricing plans over the next 12 months are presented in Figure 6. According to the companies, prices are under pressure due to weak demand and the fact that there is spare capacity in many sectors. Another factor that has probably had a major impact on the responses is the rapid strengthening of the Swedish krona during the summer. As many of the export companies are price takers on the international market their margins are squeezed by the fact that the krona has strengthened, and several companies see limited possibilities to restore these margins. Generally speaking, the development of the costs of input goods no longer constitutes a motive for price increases. This in turn relates to

Figure 6. Factors that will affect pricing in the coming twelve months
Weighted net percentages



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

falling commodity prices and a stronger krona. Higher wage costs remain an important reason for the companies to raise their prices. The companies often aim to compensate for rising wage costs by significantly increasing productivity, but at present this aim is hampered by falling volumes.

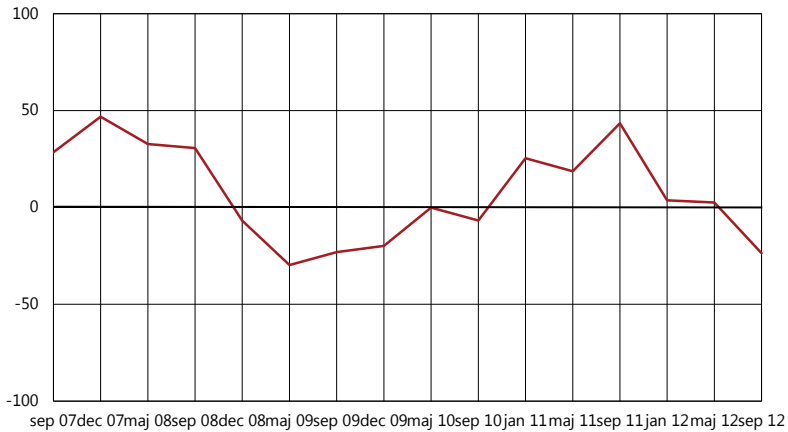
The responses from the companies on the factors that will govern pricing in the period ahead differ somewhat from sector to sector. There are clear differences with regard to the impact of input goods and the development of productivity. In the manufacturing sector, rising prices for inputs goods are not a reason to increase prices, while several companies in the retail sector continue to refer to rising prices for input goods.

The development of productivity has often been a factor that has held back price increases in the manufacturing sector. This will apply in the period ahead too, but only to a limited extent. There are several companies in the retail sector that see the development of productivity as a factor that can help to hold back price increases.

“DEMAND IS FALLING AT THE SAME TIME AS THE KRONA IS STRONG – PROBLEM MULTIPLIED”

The companies say that their profitability has declined significantly lately and most of them are now dissatisfied with their profitability (see Figure 7).

Figure 7. Profitability
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' assessments of their profitability at present. The net figures in the diagram represent the balance between the percentage of responses that profitability is good and those that profitability is poor.

Weak demand and stagnant or falling prices on some markets are making it difficult for the Swedish companies to raise their own prices and margins, which is having a negative impact on profitability. Some sectors are benefiting from a stronger krona because they import large quantities of goods, but even in these cases it appears probable that prices will be affected by the fierce competition. In some export sectors, profitability is under strong pressure due to the stronger krona and these companies are therefore planning to implement extensive rationalisation and cost-saving measures.

Profitability problems and the difficulty of increasing prices are mentioned as major concerns in many of the interviews. These difficulties have probably left their mark on many of the companies' responses.



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